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JUNE 1980

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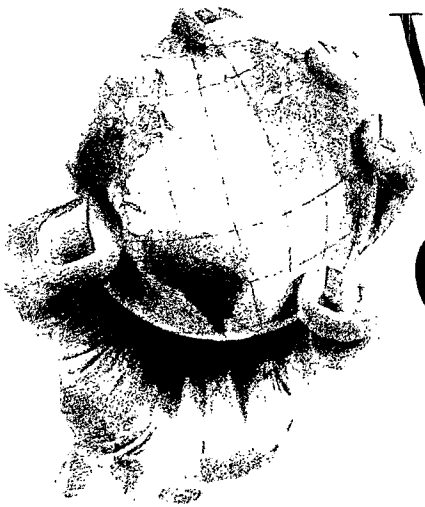

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Robert G. Anderson

RUNAWAY INVESTORS

AFTER a generation of exported U.S. inflation, resulting in a worldwide flood of dollars, the tide is starting to reverse. Foreigners are finally convinced that it's time to send some of those dollars back. Observing the bargain basement prices in the United States when compared to what these same dollars will buy in their own countries, foreign dollar holders are beginning to "Buy American" with a vengeance.

For years dollars have been accumulated overseas, billions of them being held as foreign currency reserves. In the beginning such dollars were acquired by foreign governments because they were redeemable in gold. But that option was withdrawn in August 1971. Since that time the acquiring and holding of dollar reserves has resulted either from inertia or in some vain hope that the dollar's value would remain intact.

Throughout the 1970s the U.S. Government's monetary policies have literally inundated the world market with dollars, destroying any hope that the dollar's value would be preserved. Aggravated by the monopoly pricing policies of OPEC oil, the world is glutted with dollars of diminished purchasing power. For years, foreign dollar holders have absorbed billions of newly-created dollars, thus preventing those dollars from bidding up U.S. prices. But foreign holders are less and less willing to play the "sucker role" in the game of "exported" inflation.

The first signs of realization came to these dollar holders when they began to observe the massive dispar-

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ity between the dollar's purchasing power in the United States and in the world market. Not only was America getting OPEC oil while the Arabs accumulated our paper, but foreign dollar claimants throughout the world were helping to pay for the oil in an ever-declining dollar purchasing power.

A Flood of Dollars

The most surprising aspect of this monetary development is that it has taken foreign dollar holders so long to wake up. And their awakening is not going unnoticed in the United States. The American buying public is reading the lesson from abroad, and reacting in a buying spree that is rapidly driving domestic prices into line with higher world market levels. The result is that the dollar strengthens in world money markets while it plummets at home.

These changing events are most frustrating to the masters of econometrics. The tools of their trade, the computers, have been churning out all kinds of mathematical data, assuring us of a coming recession. Meanwhile, consumers continue to confound them with their buying surge, utterly indifferent to the computers' messages. The macro economist's meek response is that the recession is still out there, but like the Amtrak train, just a little behind schedule.

The errors of the macro economists can be found in their computer programming. Looking back instead of forward, they totally ignore that there have been fundamental changes in the "rules of the game." Devoting all their attention to statistical aggregates of the past, all of which fit so neatly into their computers, they have ignored the changing actions of the individuals lumped into their totals.

If macro economic statistics are reflecting *no recession now* and that times today are good, then it's time to take a closer look. For the fact is that this country is in deep economic trouble. The recession which may appear hidden by the computer's statistics, is nevertheless very much upon us.

As everyone is now painfully aware, we have entered the era of double-digit inflation. While this certainly represents a new experience for today's United States citizen, it is an old development that all too often has devastated other societies. Whether our path will end in such destruction cannot be known, but it is clear that we are heading in that direction.

Even the casual observer must sense the growing conflict and deterioration in our society. The high costs of energy, housing, and medical care are denying such resources to the needy. Pensioners and others on fixed incomes are pauperized by the destruction of their purchasing

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power. Urban transportation in many cities barely functions. The quality of educational services in our schools is at an historic low. Violence and crime threaten our public safety. A revolt of the special interests generates conflict and thrusts unbelievable hardship on innocent victims.

The Burden of Interventions

The impact of government intervention on our lives has reached a breaking point. Not a day passes without some new insanity of regulatory harassment. Investment incentives in productive activity are being crushed under a punitive tax burden. Existing controls and the constant threat of more controls have placed a moratorium on a multitude of ventures.

In sum, we are witnessing a decline in our material way of life. People are travelling less, driving smaller cars, living in condominiums instead of single family homes, turning down the heat or turning off the air conditioning, cutting back on dining out, and reducing the menu quality at home. No matter how one rationalizes it all, such changes clearly reflect a decline in the quality of life.

The concentration of macro economic statistics on aggregates such as gross national product has told us little about this concealed decline in our material standard of living. The impact of double-digit inflation on the accumulated wealth of the individual has received far too little attention. While the toll of higher prices on personal income has been scrutinized closely, the loss of real wealth in money holdings is largely ignored. The facts are that the economic burden from a doubling of gasoline prices pales before the awesome loss of real wealth inflicted on individual savings accounts, pensions, and fixed income securities in our country today.

This insidious nature of inflation destroys the purchasing power of all money instruments. And while it is readily recognized that current incomes buy less, we seem to need reminding that accumulated money buys even less tomorrow. It is from this "hidden" loss on accumulated savings that our society is today floundering in a growing recession, a decline in the material well-being of millions of citizens.

After two generations of inflation that has consumed over eighty per cent of the dollar's purchasing power, the American people are finally awakening along with the rest of the world. Folks in New York are starting to think and act like folks in Buenos Aires.

Victims of accelerating inflation can not stay passive forever. The panic for survival changes both their outlook and their economic behavior. In the face of double-digit

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inflation individuals act in a radically different way than under conditions of sound money. Everything changes, from our values and actions to their impact upon the institutional foundations of society. A society of sound money and orderly growth rapidly gives way under inflation to a society of chaotic decline.

Panic Buying

Throughout history the appearance of double-digit inflation has more often than not been a prelude to the ultimate destruction of money. As more and more holders of money come to realize this, the growing response is to abandon money in the hope that one can somehow escape the ravages of inflation. The tragedy of such action, however, is that panic buying only worsens and accelerates the pace of the runaway inflation.

The first principle of preserving real wealth in an era of double-digit inflation is to acquire "things." Anyone holding his wealth in money is eventually doomed by double-digit inflation. The transformation of "money" savings into "things" savings becomes a *first priority* in an age of inflation. The passing of time proves over and over to inflation's victims that money today can no longer buy what it bought yesterday.

The ominous results of these changing attitudes and behavior are becoming ever clearer in the United States. A reduction in saving and an increase in consumption is observed. Speculation replaces production. Bond prices collapse while stocks fluctuate wildly. Higher prices accompany falling productivity. Controls and regulations supplant economic freedom. Pockets of poverty and prosperity appear everywhere. Confusion and dismay grip everyone.

The individual's response to double-digit inflation is never pleasant, but it is inevitable. The first rule has been learned: get out of money. With a vengeance, inflation's victims incur debt and withdraw savings to do so. Rising interest rates hopelessly try to reflect the onslaught of buying and the vanishing money market. But as interest rates lag behind the double-digit rates of inflation, they only make "things" investment all the more attractive. The high bank rates become a "signal" that the money market is rapidly collapsing.

The withdrawal of savings and the sale of bonds to buy "things" accelerates the process of rising goods prices. The collapse of the money market accompanies the panic. The rush out of monetary investments and into real goods in order to preserve one's wealth takes on a psychology of a bank run. The panic feeds upon itself as it races out of control.

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Threats of price and wage controls in such an economic climate only speed the process. Anticipating the inevitable shortages that must come from such controls, the panic buying of "things" increases. Producers, fearing the "cost trap" from coming controls, raise their prices even faster. Speculators likewise respond by hedging in any and all areas where they believe controls cannot reach, anticipating the future profits waiting them in the coming black markets.

At this point appears one of the great ironies in the final stage of runaway inflation. It is a shortage of money. As individuals seek more debt in order to acquire "things," as the money market vanishes due to a failure of lenders, the increasing volume of buying activity creates an illusion of scarce money. In the end, the massive inflation which increased the supply of money and precipitated the panic, creates the illusion of money shortages.

Inflation Invokes New Rules of Prudence

What the computers have not been telling their econometric programmers is that the "old rules" are no longer obeyed in an age of double-digit inflation. Folks no longer buy to consume, but instead they buy to "save." Rising interest rates do not attract savers, but instead serve as a signal to savers that inflation is outpacing them. The destruction of money forces all money holdings into the haven of "things," in a last ditch effort to preserve what wealth remains.

The flight from money to precious metals is merely the tip of the iceberg. It reflects the beginning of a panic process by those individuals in society who understand what is happening. But while it is a beginning, it is not an end. The end comes with the ultimate destruction of money in a final burst of runaway inflation—an inflation so extreme that it renders the money worthless as a medium of exchange and therefore unacceptable to anyone in the market.

The sharp increase in precious metal prices should serve as a reminder and warning to everyone of how quickly a panic can begin. Just a moderate loss of dollar confidence led to an explosion of precious metal prices. Imagine the impact on all prices should such a panic extend to all dollar holders. Gold and silver have provided a frightening and cheap lesson to all dollar holders—if we will have learned it.

The greatest danger of double-digit inflation is that it can establish the base for tomorrow's panic. Already foreign dollar holders seem to be leading the way. The traditional statistics on personal debt or disposable income, rates of saving or profits, no longer have their old mean-

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ing. They can only conceal the runaway inflation in the form of a "delayed recession."

In such an atmosphere the individual has no choice but to become a runaway investor. His money wealth is being rendered worthless. To forgo consumption becomes ever more costly. Present buying for future consumption proves his best investment. When he needs one of a thing, he learns instead to buy two, three, or more.

The runaway investor discovers that his used goods sell for more than when new. Only when he replaces goods does he learn that his dollar gains are not wealth gains. The market quickly teaches him that "things" are a better investment than dollars.

Neither the limitation of heavy consumer debt nor productive income will stop the runaway investor—not until all his money savings are transformed into "things." By then it is all over, for runaway inflation has run its course and the dollar has been destroyed as a medium of exchange.

The fear of a runaway inflation has finally drawn the attention of the engineers who have fed it. The rhetoric and actions of the Federal Reserve Board reflect concern. But Federal Reserve policies of moderate growth in bank credit and higher discount rates are too little and too late. The awesome magnitude of the outstanding money supply that can be liquidated for "things" by panicked consumers demands stronger action. Nothing less than monetary contraction may now be required to restore confidence in the minds of dollar holders. Otherwise, an uncontrollable dollar panic, feeding upon itself, can lead to a final burst of runaway inflation.

If such a scenario should be our curse, the yields or earnings in the stock market will be meaningless. Holding shares in a tire company may at least give the dollar holder an owner's claim to a tire—a real good that will be far more valuable than depreciating money. Dollars in a six per cent passbook savings account won't compare to the pair of shoes that has doubled in price. The race for "things" becomes the only concern of the runaway investor.

A Game Without Winners

The tragedy of runaway inflation is that it is a negative-sum game. While one may think he is winning in the beginning, the final result is that all must lose. The destruction of money through runaway inflation cripples our social division of labor, annihilates all money markets, consumes productive capital, and thus lowers the general standard of living for everyone. In its aftermath, the political, social, and economic foundations of society are seriously threatened. All too frequently the

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chaos, conflict, and impoverishment that it generates has led to the authoritarian society.

It is imperative, therefore, that inflation be stopped now. Many already believe that it may be too late. But to fail because we did not try would be unconscionable. Not since 1860 has this nation faced a greater threat to its survival than it does today.

The prospect of this kind of runaway inflation is terrifying. Fortunately, another path does exist. It is the path of restoring sound money. And sound money means the restoration of gold as money.

Such a solution, however, is a paradox. It is both exceedingly simple and profoundly difficult to implement. The economic solution is to simply stop expanding the supply of money and reinstate gold convertibility for paper dollars. The first action could be implemented by the Federal Reserve today, the latter by Congress later. *But,* only if they wished to do so.

And here lies the profound difficulty. Have the political forces in America reached a point where such action cannot or will not be done? The answer to this question will determine whether our destiny is sound money or runaway inflation.

The present magnitude of government deficits, the massive growth in the size of the "public trough," voters' expectations of more political largess, a continuing penchant for further political direction of our society—all must be reduced if the choice is sound money. Any hope at this point for more of the same is sheer fantasy.

Now is the time to face the conflict between the political problem and the economic solution. The inexorable economic repercussions from years of past inflation are closing in on the political managers. The horror of runaway inflation is imminent. It can and must be prevented.

Otherwise, the people who hold our nation and economy together—the middle class—will be wiped out financially. At such a point, a closed society and the loss of individual freedom of choice becomes a very real possibility.

Let's hope it's not too late.

IDEAS ON LIBERTY

The Longer We Live

To any thoughtful student of monetary history, ancient and modern alike, the deadliest enemy of the man and woman over 65 years of age is paper money under political control.

ALLEN W. RUCKER

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Ellis W. Lamborn

A MARKET CHOICE OF MONEY

THE most powerful individual in any organization is the person who controls the purse. The person controlling the keys to the vault where the cash is kept really has more power than many people who in an organizational sense should be in a position to order, or refuse to order, disbursement of funds.

In any attempt to control the Federal Government and the activities of the government we must first discover who is the keeper of the purse. Which branch, which person or which agency is actually in control. It does little good to look at an organizational chart—it will only confuse the issue. However, if we examine the actions of the Federal Government it soon becomes apparent that it is not the President, nor is it the Congress that is really in control, although both of these frequently announce that they are in charge. The real control is a semi-public agency known as the Federal Reserve System. Any person in control of the Federal Reserve really controls the system.

Governments have been successful in hiding the cost of many new programs because they have a monopoly in the creation and control of money. Because of this monopoly the government does not have to support new programs and other activities by taxation or the closing down of old programs. These new programs can be financed by the proper control of the money system. Nearly everyone thinks that this important activity must be run by and supervised by the government. It was thought to be so important

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that it was even written into the original United States Constitution, and it has remained there.

The Article is written ". . . shall have the power to coin money and regulate the value thereof." It has been fairly easy for the government to discharge the responsibility to coin money, but this regulation of the "value thereof" is a bit more difficult.

Tied to Gold

Some want the money supply tied to some particular metal, the most popular of which has been gold and/or silver. The argument in its simple form is that the value of the money supply will be controlled automatically, and there seems to be a profound trust in anything that is automatic. But although it is automatic there is no assurance that the money supply will behave in such a way as to give us anything like a stable price level or full employment or any of many other things which we desire.

Under the gold or some metal standard whether or not your price level remains stable will depend on three factors: (1) the supply of goods, (2) the supply of money (gold), and (3) the price of the money—usually referred to as the price at which the government will buy and sell gold. Under conditions where the supply of goods and the supply of gold remain constant or change at the same rate, the price level will remain relatively stable. However, that would be a rather unique situation and has happened only a few times in history.

The factors that control the supply of goods in a general sense are not the same factors that control the supply of one particular good such as gold (and it won't help much if the standard money is to be one, two or even three commodities). Witness what happened to the general price level following the discovery of gold in California in 1849, or the period from 1872-1896.

But the gold standard people have one ace in the hole. If things get too far out of balance they can always change the price of gold. However, this presents two problems:

(1) If the price is not changed quickly enough, we may have either deflation or inflation.

(2) This gives some government agency the power to control the money supply and thus control the price level and the change in the price level.

So it should be apparent, if we adopt or revert to the classical gold standard and then let it alone to operate in its automatic way, we will be subject to long periods of inflation or deflation and not stable prices at all. Whether we have inflation or deflation will depend upon the increase in supply of goods and

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services relative to the increase in the supply of money. Even this assumes we know something about money velocity (the number of times a unit of money is used in a given period of time).

The other alternative, of course, is changing the price of the money, and that supposes that some individual (or group of individuals in some government agency) is able to determine when and by how much the price of money should be changed. It is likely that the price of the metal that is used as money might be changed to help finance new programs in situations where it seems undesirable to increase taxes or to eliminate older programs. If a metal is selected as our money standard, the price of the metal should at least be allowed to change as market conditions change on a worldwide basis, which means that the price of money should be determined by supply and demand conditions on a worldwide market. Indeed, this might well be the second best solution to our money problem.

Some individuals who can see the need for some changes in the supply of money over time but sense the inherent weakness of the classical gold standard are willing to settle for a constant increase in the money supply. These people point out that the productive capacity of the country will no doubt increase over time, so some increase in the money supply is needed (the alternative being, of course, long term deflation). If the money increases at about the same rate as the production of goods and services the result will be stable prices. This, of course, assumes that the velocity of money does not change to any significant degree. This rather simple solution to a complex problem overlooks at least three rather basic problems:

(1) It is difficult to increase the money supply at some preannounced rate. Although we may want the money supply to increase at four per cent or five per cent or some other magic figure, it is necessary to control the actions of the commercial banks as well as the saving institutions to achieve this desired result.

(2) Short time fluctuations in the growth rate of either the money supply or of goods and services may cause serious periods of inflation or deflation. These periods of inflation and deflation will of course come to an end if we are willing to wait and do not give in to the third defect of the system.

(3) If the government or some agency of the government has the power to set the rate of increase in the money supply, they also have the power to alter the rate of increase, and the rate of increase can be changed to provide for inflation. That is the most serious defect of the system.

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The Federal Reserve

We, in the United States, have tried to avoid the pitfalls of either the gold standard or fixed increase in the money supply. We have turned the control and operation of our monetary system over to a semi-public agency known as the Federal Reserve System. The Fed, as it has come to be called, is a rather large bureau and has become self-supporting, gaining its revenue from the services it sells to commercial banks and the interest on the government securities which it "owns." The Federal Reserve also performs many services for the Federal Government, such as acting as its agent in the selling of bonds. However, the primary and most important function of the Federal Reserve is to control the monetary system. The Fed has been in existence since 1913 and is one of the most respected of all government agencies. However, when the Fed is measured against the yardstick of what it is supposed to be doing, the record is not only unimpressive—it looks like complete failure.

The best time to judge an institution is when it is working under stress, but when the Fed is placed under stress it fails to perform as we thought it would. This has been the case in every period of economic stress since 1913.

For example, during wars the government needs and uses large sums of money. The government really has only two ways to obtain the needed funds: taxation or borrowing. In my opinion, taxation is the preferred method, but they have chosen in every war and "police action" to borrow large sums. This borrowing action has been handled by the Federal Reserve, and in order to get the large sums needed the money supply has been expanded at too rapid a rate, and the result has been higher prices.

The alternative to money expansion was for the Fed to bid the resources away from the private sector by raising the interest rate paid on government securities, but in the short run situation we in the United States seem to prefer inflation over high interest rates. Following World War II when the Federal Reserve complained about carrying this burden for the United States Treasury, the result was the "accord" signed in 1951 which officially relieved the Federal Reserve of this burden which they never really had in the first place. The Fed sometimes keeps the money supply expansion at too low a rate causing unemployment. However, the most usual error has been to expand the money supply at too fast a pace so that prices have risen. This has been especially true since 1950. The inflation rate has recently been above a figure that was completely unacceptable in 1955.

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The Great Depression

The worst recession, or depression, that this country experienced was in 1929-33. At the time, few people understood what happened or the reasons for what happened. But after the smoke cleared it seemed apparent that the Federal Reserve was too busy getting the gold standard restored in England during the 1920s, which was a questionable objective for the United States Federal Reserve System. Then, when it appeared that we were to have a slight or minor recession, the Fed responded by actually forcing a reduction in the money supply. At the bottom of the depression the officials made the statement which by now has almost become a classic: "We could have stopped the recession except that we didn't have enough power." The Congress responded by giving them more power, and the Federal Reserve then used their new weapons to cause the recession of 1937-38. This recession was more severe but more short-lived than the recession of 1929-33. The short duration of the recession was due to the upcoming war in Europe and the fact that the Fed was shifting over to their new position of continuous inflation to help the Federal government finance the war effort.

There have been times when the Federal Reserve has done the right thing at the right time. But the more important question is, have their good decisions outweighed their bad decisions?

It is true that there were recessions before the creation of the Federal Reserve in 1913. It is also true that there were periods of inflation before 1913. The important question is, has the Federal Reserve been stabilizing or destabilizing? It seems to me that the Fed has been destabilizing. Monetary authorities that are not government connected are coming to this same conclusion.

The problem is that although many are able to agree that the Federal Reserve System has worked less than perfectly, most want to keep the government involved in the monetary system in some fashion and try to correct the defects. However, it appears that the Federal Reserve has worked so poorly that any attempt to patch the system, which in most people's minds means giving it more power, will not solve the problem. Everyone makes mistakes. Usually when a person makes mistakes he affects his own future and the future of people with whom he deals. When a government decision is a mistake it affects the people that deal with that agency. Everyone is affected by the monetary system, so this is one government agency that influences the lives of everyone.

The solution, then, is to repeal the act (actually it will be several acts) that created and expanded the Fed-

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eral Reserve System, and then amend the Constitution of the United States so that the Federal Government no longer has the power or the responsibility "to coin money and regulate the value thereof." This is drastic action, but drastic action is needed.

Mistakes Inevitable

Any government unit will make mistakes, but there are additional hazards with an agency that controls the money supply. Any government unit that wants to run continuous deficits over a period of time can do so only with the cooperation and aid of the people in control of the monetary system. Money is too important to the operation of the economy to trust the operation of the monetary system to government. It must be left in the hands of the people. The new system that will arise will handle our needs in better fashion, but of course the system will not be perfect.

The result of getting the government out of the money business will be chaos for awhile at least. After all, people for generations have been accustomed to the government controlling the monetary system. The point is that patching up the Federal Reserve, the gold standard, or any automatic monetary rule is not going to solve the problem. The problem is the government itself. A matter as important as money cannot be left to central government action.

Without government control there will be increased uncertainty, especially in the short run. After we have developed a new system the uncertainty will be at a minimum and the costs of operating the system will be no greater than the present costs—they might even be less. Remember that though the Federal Reserve operates without using money obtained from the Federal Treasury, they collect both for services rendered to commercial banks and interest on the securities that they own.

Cost of operating the new system will not be of major consideration. The cornerstone of the system will be that anyone who wants to can get into the production and sale of money. There is, of course, the problem of getting customers. This may be referred to as acceptability, but in the marketplace it is known as producing a product that consumers like.

Hopefully, under such a system the person or corporation that issued money would be interested in maintaining acceptability for that money. Some money would be worth more than others, and exchange rates would be established in the marketplace among the various monies offered. Some of these monies would become completely worthless. In time (and this time

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period would be years, not days, weeks or months) it is rather safe to assume that there would be only a few issuers of currency.

Advantages of a Market Monetary System

The important point is that under this system there would be no inflation. Individual issuers of currency would be interested in maintaining the value of their currency, or else it would not be used. There would, of course, be some fly-by-night operations. Some people would be taken in by worthless currency. These costs and the cost of operating the system would be less than the cost of operating the present Federal Reserve System, especially when inflation is assessed as one of the costs of the present system. The issuers of the currency would keep the system in operation, not because they are particularly public spirited, but because it would be in their own best interests.

Individual banks and/or other institutions would be free to make loans, collect interest and perform other monetary transactions. They would even be free to insure their deposits if they thought it was in their own best interest to do so. Some are apt to point to the Federal Deposit Insurance Corporation as a well-run government agency. Needless to say, its record is somewhat better than the record of the Federal Reserve, but then the FDIC has been operating as an insurance agent during a period of almost continuing inflation. Under these conditions there can be some bad debt, but one must wonder if the FDIC would be able to survive a situation such as existed in 1929-33. It would be better to have several insurers of deposits, and there is no reason why these could not be international in scope.

In summary, then, the thesis is that the government should take itself by Constitutional amendment out of the money business and turn it over to private interests. It is not that the private interests will operate the system in a perfect manner, because they will not. But the private sector can and would operate the system better than the government has during the period since 1913.

Universal Money

IDEAS ON LIBERTY

FOR SOME 2500 YEARS small pieces of gold and silver, called coins, constituted universal money. It survived two millennia in spite of countless attempts by hosts of governments to manipulate it or replace it with their own media.

From the book *Gold Is Money* edited by HANS F. SENNHOLZ

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Clarence B. Carson

UNION CONTEST WITH GOVERNMENT

Haymarket Riot, 1886

LABOR UNIONS are an enigma. Their enigmatic character begins to surface as we explore the questions of what they are and what they do. It does not take long to come upon aspects of unions that do not jibe with what they appear or claim to be. Labor unions claim to be organized against employers. In fact, however, they are most basically organized against other workers.[1] Moreover they conceal this contest behind the screen of ideological formulations taken from socialism.[2]

There is more to the enigma than that, however. One way to get to it is to look more closely at the character and functions of unions. In one sense, there is no mystery about what a union is. It is an organization, an organization of workers. When we go beyond that, however, we enter upon confusion. For example, what sort of organization is a labor union? Is it a charity? Is it a fraternity? Is it a business? Is it a government? In short, where does the labor union fit within the spectrum of organizations that are familiar?

In several respects, a union resembles a business. If those who are employed by the union are considered as distinct from the worker members, the union takes on some of the aspects of an agency. That is, those who are employed by the union are representatives or agents of the rank and file members. But what sort of agency? In one of its aspects, it bears some resemblance

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to an employment agency. In another, it resembles an agency such as actors, writers, and artists sometimes employ to make arrangements for their work. In another, it may resemble an insurance agency, collecting and handling retirement funds. However, a union is not just a business, for it also resembles a mutual aid society or a fraternal organization, and may sometimes do works of charity.

Unions Employ Coercion

Be that as it may, there is one crucial difference between labor unions and the above organizations. It is that unions employ coercion. They have a tendency to compel people to become members, and, when they fail at this, to treat them as if they were. In their efforts to exclude non-union workers or those from other unions, they are monopolistic. And many of the tactics employed in organizing, in boycotting, and in labor disputes are coercive. In their use of coercion, unions resemble government. And it is their use of coercion that brings them into conflict with government.

Indeed, the contest between unions and government is a basic one. Union coercion challenges established government at its foundation. It challenges government's monopoly of the use of force. A government—any government—is that body which has a monopoly of the use of force within its jurisdiction. If it does not have it, the stage is set for armed conflict.

Union ideology lays claim to a jurisdiction for unions in which government (or *other* governments) is not supposed to interfere. The argument is usually made obliquely—unions do not claim to be governments—and goes something like this. Capital and labor (or management and labor) are the contestants in any labor dispute. Indeed, whatever is in dispute is solely between them. But capital has a large initial advantage in the dispute because of the accumulated wealth it represents and the control over the livelihood of workers involved. Not only are individual workers powerless to deal with them but also organized workers unless they are permitted to use the tactics which will enable them to match the power of wealth with the force of their numbers.

Unionists usually draw the battle lines in such a way that it is only possible for government to intrude into the dispute on one side or the other. "You are either for us or against us," they say, in effect. The basic posture of union leaders has usually been that government should stay out, though they have not been averse to legislation favorable to unions.

Their position came out rather clearly when they testified before

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the Senate Committee considering amendment of the Wagner Act after World War II. The chairman of the committee accused Walter Reuther of taking the position that "Government should not interfere at all and that we should not pass any laws because the Government should not interfere." But, the chairman pointed out, there were already laws on the book. To which Reuther replied, "The Wagner Act was remedial legislation to correct a particular abuse. Nobody can deny it was created because American labor in the face of this concentrated wealth could not begin to get the rightful status in American industry around the bargaining table."[3]

John L. Lewis was asked this question by one Senator: "Do you not think there is a point where the exercise of the right and freedom by any group of individuals impinges so drastically on the rights, privileges, and freedoms of all others that the Government has to step in and do something about it?" Lewis answered, "No, I think definitely the Government should not, Senator, not if you want to preserve America as we know it, and its freedom, because you cannot regulate the human beings who work for a living in this country, and who, in a major sense are not rich and in a substantial sense are quite poor. . . ."[4]

In sum, labor unions claim the right to use coercive tactics. Moreover, they claim a special jurisdiction within which they can employ these tactics. The bounds of that jurisdiction are supposed to be in the organization of workmen and in labor-management disputes. For any government to grant such a jurisdiction is either to recognize unions—or unions in conjunction with management—as having the status of a government or sharing in the powers of existing government. For example, they might be conceived as comparable to a town or city in the United States, incorporated by states to exercise certain political powers but not independent of the states.

No Special Standing

Actually, however, unions have had no special legal standing for most of American history. They were private organizations with no particular power, authority, or responsibility. Such rights as they possessed were those belonging to individual members. As one book puts it, "They are voluntary organizations without limited liability and are generally without a personality apart from that of their individual constituent members."[5] Only one state has required incorporation and, though a Federal law permitted incorporation in the District of Columbia from 1886 to 1932, there was no rush of unions to achieve that status. They were organized into a

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body, banded together for concerted action, given to using coercive tactics, yet before the law they dissolved into their component parts.

It is not difficult to see why union action brings them into conflict with government. Every resort to coercion is a challenge to government. There is the continuing underlying conflict arising from government's effort to monopolize the use of force. Beyond that, there are the difficulties unions pose for government in the performance of its basic functions. Its basic functions are to protect the life, liberty, and property of those within its jurisdiction. To the extent that unions use coercive tactics, they challenge the exercise of these functions.

Contrary to union ideology, labor disputes are not simply a contest between unions and management (hence, nobody else's business). Basically, unions are organizations of some workers for the purpose of raising the price of labor by excluding competing workers from employment. If there is a strike, and management attempts to operate the struck facility, the visible conflict is usually between strikers and those who are willing to work. Union ideology attempts to conceal the character of the conflict by describing those who would work as instruments of the employer. They are described as "scabs," "rats," and "strikebreakers." This invective helps to obscure, too, a much broader situation that may prevail. There are not only those who do work during a strike but also others who might apply for work and be employed were they not intimidated by the strikers. These are the silent interests in what is billed as a labor-management dispute.

Injury to Employers, Suppliers, and Consumers

To say that the conflict with management is in the background—is secondary, if you will—is not to imply that the owners of facilities may not be harmed by union coercion. On the contrary, there are frequently assorted damages from which government action to prevent or bring a halt to the coercion might protect them. Their property may be trespassed upon. There may be work stoppages because workers are prevented from entering the plant. They may be unable to meet contractual obligations. They may lose business to competitors. They may be unable to pay their bills when they come due. And so on.

A third line of effects extends outward from strikes and boycotts. The flow of commerce may be interrupted. Suppliers may be damaged by the loss of a market. Those dependent upon the struck facility for goods or materials will have to look elsewhere or do without. Transportation facilities may lie idle. A

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whole category of interdependencies may be disrupted.

A fourth order of effects may also result from union coercion. It is the effect upon consumers. If strikes, boycotts, or other disruptive tactics, succeed in shutting down facilities, goods will not reach the marketplace. Shortages may develop, and prices will rise. If the product is in any way unique, customers will be denied choices. But whether any of this occurs, if unions succeed in raising wages, there will tend to be a rise in prices to compensate for the raise.

Union use of coercion inevitably brings it into a contest with government, then. It challenges the government monopoly of the use of force. Its coercion is exercised against those whom government is committed to protect. The extended effects reach eventually to all the inhabitants of the country.

How Governments Have Responded

Governments in the United States have responded to the challenge implicit in union activity in three ways historically. One writer on labor policy describes them this way: "*suppression, toleration,* and *encouragement.*"[6] Until after the passage of the Sherman Antitrust Act in 1890 the federal government had no primary involvement in labor disputes. The responsibility for maintaining the peace and protecting life and property was exercised by the states. In the few instances prior to the 1890s when the federal government did become involved it was in response to requests from governors of states for military help.

Suppression is too strong a term for describing state action toward unions during the first half century or so of the existence of the United States. Some unions existed throughout this period. However, when cases came before the courts, unions were often found to be guilty of conspiracy either because of coercive tactics or for the exclusion of competing workers from employment. In short, unions had the same right to existence as any private organization, but they could not employ coercion to fix wages or other conditions of employment. For a variety of reasons, and it is not at all clear that their legal status was the most important, unions were usually shortlived and insignificant for the first half of the nineteenth century. There were no nationwide unions and little enough national commerce.

Toleration is imprecise for describing the posture of governments toward unions in the latter part of the nineteenth century (and well into the twentieth, for that matter). It might be more accurate to say that unions were usually ignored until they created some disturbance. At that point, when police or troops were called in, an *ad hoc* solution

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was applied. Courts did not generally concern themselves with such effects as the financial impact on workers excluded from employment or those which reached through to the consumer. Indeed, courts restricted themselves largely to trying individuals for acts of violence if and when such cases were brought before them until well into the 1890s.

Unions after the Civil War

Unions did begin to become nationally important after the Civil War. Several national unions were organized, and there were successful efforts to organize workers in many industries. "The Industrial Commission of 1900 reported that there were 22,793 strikes between 1881 and 1900 which affected some 117,000 businesses. During the same period there were 1,005 lockouts."[7] A lockout occurs when facilities are closed to protect the premises from trespass and the property from damage. The number of them may provide some indication of the fear of destruction during labor disputes.

The union contest with government became visible, vociferous, sometimes violent during this period. The first national instance was the Railway Strike of 1877. This was not a single strike coordinated by a central union but a series of strikes which spread to several railroads and states during that year. The strike began in Baltimore following the announcement of a wage cut on the Baltimore and Ohio Railroad. Crewmen refused to move trains, replacements were hired, and when the strikers remained in the yards, they were arrested. The trouble then shifted to Martinsburg, West Virginia. When the crewmen refused to take the trains through, the railroad asked the governor for troops. When the state troops met resistance they killed a striker and one of them was wounded. The governor requested Federal troops, and several hundred were dispatched. After a change of commander, these were able to get the trains moving again.

Much worse violence lay ahead in Pittsburgh, however. The reduction of wages was not the issue there. The trouble arose over the decision of the Pennsylvania Railroad to haul longer trains by using two engines. Crewmen and yardmen refused to move the train and, when an attempt was made to move it, they attacked it. All train traffic was stopped, and the sheriff wired the governor for troops. Local Guardsmen from Pittsburgh were supplemented by a large contingent from Philadelphia.

When the sheriff, assisted by Guardsmen, attempted to arrest the leaders, shooting broke out, and the Pittsburgh troops threw down their weapons and took sides with the

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strikers. The Philadelphia Guard withdrew to the railroad roundhouse. "Shut up in the roundhouse, the guardsmen were surrounded by a large crowd that called upon them to surrender. A gun brought by the rioters and loaded with couplings and broken rails steadily pelted the roundhouse, but the guardsmen held out and marched out only when the pickets had pushed burning oil cars against the building. The retreating troops were fired upon as they moved through the streets, and several fell from revolver and rifle shots."[8] After another day of violence, things quieted down, but trouble was spreading in Pennsylvania.

The governor requested troops from President Hayes. These were dispatched from Baltimore, but "Strikers blocked the road at Altoona and refused to allow National Guardsmen to proceed to Pittsburgh. . . . The governor set up headquarters in Philadelphia, assembled troops and set out for Western Pennsylvania, followed by several hundred regular army troops equipped with artillery."[9] When a sympathy strike broke out in Scranton, large damage in mines was anticipated. "A clash between pickets and a posse that had been recruited by the mayor of Scranton resulted in the killing of four and the wounding of several others. Aid was sought from the governor while armed citizens patrolled the city streets. A force of 1,800 men was dispatched and was followed by 2,000 additional troops."[10]

Trouble spread to Ohio, Indiana, and Illinois. In Chicago, pickets went from one plant to another attempting to make them close down and go out on strike. Pleas from the mayor and governor were unavailing, for "crowds clashed with the police, some of them were killed and many others wounded." The army was brought in. "Order was restored with the arrest of rioters and their leaders."[11]

The Haymarket Riot

Surely, these clashes between unions and government were unusual in scope and severity. However, there were instances when clashes were more pointedly ideological than those in the Railway Strike. Perhaps the most well known was the Haymarket Riot in 1886. There were anarchists directly involved in events which led to this series of events in Chicago, men who believed and taught that government was an instrument of capitalists to oppress the workers, that government, then, was an enemy to be overthrown.

Cyrus McCormick, owner of a harvester works in Chicago, had refused to accept a union to represent his employees. When pressed, he closed his factory and opened it later

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with non-union workers. Conflicts between the union men now on strike and the workers were frequent. Meanwhile, organized labor launched a campaign for the 8-hour day with a general strike. For whatever reasons, probably as a conciliatory measure toward his workers, McCormick granted the 8-hour day and gave his workers a half-day holiday to celebrate. "As the workers came out of the factory they were greeted with hoots of contempt and derision by the union men assembled near by. Not far away, in a vacant lot, striking lumbermen were holding a meeting. . . . The two groups joined forces. The owner summoned the police and, in the fighting that followed, several workingmen were killed and a score or so wounded."[12]

A protest meeting was scheduled for the next night to be held in Haymarket Square. Circulars were printed up in English and German and distributed over the city. The heading read: "Revenge! Revenge! Workmen to arms!" The body of it spelled out the antagonism toward the police:

> Men of labor, this afternoon the bloodhounds of your oppressors murdered six of your brothers at McCormick! Why did they murder them? Because they dared to be dissatisfied with the lot which your oppressors have assigned to them. They demanded bread, and they gave them lead for an answer.[13]

Toward the end of the meeting a squad of police arrived and asked the crowd to disperse. A bomb was thrown into the ranks of the police; the explosion killed one and wounded others. Shooting broke out; sixty-eight policemen were wounded, and seven of them died. Four people in the crowd were killed. In the aftermath several anarchists were tried and convicted of murder.[14]

The Homestead Strike

The Homestead Strike of 1892 provides an example of another aspect of the contest. Companies sometimes hired their own police. When a strike portended, these might be supplemented by private forces such as the Pinkerton Detective Agency. The Homestead (Pennsylvania) plant was a part of Carnegie Steel. Henry C. Frick was the chief administrator. When the Amalgamated Association of Iron and Steel Workers called a strike in 1891, Frick tried to operate the Homestead plant. More than a hundred deputy sheriffs were sent to the site. However, pickets refused to allow them to enter the plant, and the deputies would not force the picket lines. The sheriff managed to get negotiations opened, and the strike was settled.[15]

Things went differently in 1892. Frick caused a three-mile-long fence to be constructed around the plant.

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The fence was topped with barbed wire, spaced holes were cut in it, and search-lights were mounted along it. When the union decided to strike, the company did ask the sheriff for protection, but Frick did not intend to place much reliance on him. Instead, he had already placed a tentative order with Pinkerton Detective Agency to supply guards, for he had concluded, he said, that "it would be necessary to protect our own property and secure new workmen."[16]

Three hundred Pinkerton detectives tried to reach the plant by way of boats on the river. However, their approach was detected by the strikers who broke through the fence that had been erected and would not permit them to land. Shooting broke out and several were killed. The Pinkertons made two other unsuccessful assaults before they surrendered. The plant was taken over by the strikers and the guards held captive. The sheriff applied to the governor for troops, and 7,000 were sent. They removed the strikers from the premises, and the mill was eventually reopened without them. In the midst of these developments an anarchist shot and stabbed Frick but failed in the effort to kill him.

The Pullman Strike

The Pullman Strike of 1894 provided the setting for a major shift in dealing with labor disputes. Theretofore, state and local governments had been primarily responsible for maintaining the peace in labor disputes. In this strike, the United States became involved on its own initiative (not simply as a backup force). A contest between a union and the federal government developed. Secondly, it began the shift to the widespread use of the injunction in labor disputes. Third, the Sherman Antitrust Act was invoked in a labor dispute.

Actually, Pullman Strike is a misnomer for the events that brought action by the federal government. There *was* a Pullman strike, but it was only the approximate cause of the trouble. It could more aptly be called the American Railway Union Boycott. When the workers at the Pullman plant near Chicago went out on strike, the American Railway Union proclaimed a boycott of Pullman cars on trains. That is, the members of their union were not to handle Pullman cars on the train that they worked. The associated railroads which came into Chicago determined that the lines would not be used in that way, that they would continue to use and pull Pullman cars. When the union men refused to comply with company orders, they were replaced by those who would. Many railway workers then struck.

The railroads experienced increasing difficulty in operating. The mail was piling up in some cities

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because the railroads were tied up by the strike. Injunctions were obtained which enjoined interference with the railroads. A witness described the response to the reading of the injunction this way:

> Marshal Arnold stood in a mail car and read one injunction. He was jeered considerably . . .; then the other injunction was read from the back of a passenger car by his deputy. . . . The men, of course, gathered around and I suppose there were 500 men upon the hill, in the roadway and around the cars. . . . It was from that crowd that the cry came, "To hell with the Government!" "To hell with the President!" "To hell with the court and injunctions."[17]

The United States Marshal wired that he was unable to enforce the injunction and requested that troops be sent in. This was done, but the immediate result was an increase in the violence. Several marshals and their resisters were killed and wounded.[18] Shortly after the union leaders were arrested, the violence subsided, and the strike was called off.

The United States Strike Commission, appointed by President Grover Cleveland, described the situation this way in the latter part of the nineteenth century:

> It is encouraging to find general concurrence . . . in condemning strikes, boycotts, and lockouts as barbarisms unfit for the intelligence of this age, and as, economically considered, very injurious and destructive forces. Whether won or lost is broadly immaterial. They are war—internecine war—and call for progress to a higher plane. . . . These barbarisms waste the products of both capital and labor, defy law and order, disturb society, intimidate capital, convert industrial paths where there ought to be plenty into highways of poverty and crime, bear as their fruit the arrogant flush of victory and the humiliating sting of defeat, and lead to preparations for greater and more destructive conflicts. . . .[19]

The Commission recommended that the government encourage labor combinations as it had capital formation in the interest of industrial peace.

Except for the railroads and more generally for a brief period during World War I, that would not be the course the government followed for the next four decades. (When the government did eventually turn to the *encouragement* of unions, as Metz called it—it might better be called *empowerment*—it hardly resulted in industrial peace.) The contest between unions and government did, however, shift to a different plane between the 1890s and early 1930s. Much of the initiative for maintaining the peace shifted from the police (and armed forces) to the courts. The main instrument for controlling labor unions was the injunction.

The injunction was increasingly used in labor disputes from the 1880s through the 1920s. Both state

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> BESIDES their vital interest in eliminating as much competitive labor as possible and expanding job opportunities to the greatest possible extent for their own members, union leaders are driven by one more unremitting goad: they must keep alive the destructive myths and superstitions upon which class-warfare thrives.
>
> If the union leaders for one moment admitted to their members the obvious truth that employers and employees are bound together by the strongest bonds of mutual and reciprocal self-interest known to mankind—perhaps exceeding even the family bond—the party would be over as far as the union leaders were concerned.
>
> **SYLVESTER PETRO,** "Unemployment, Unions and Inflation"

and Federal courts issued them. A total of 28 such injunctions were issued in the 1880s, 122 in the 1890s, 328 from 1900 through 1909, 446 from 1910 through 1919, and 921 in the 1920s. One authority described the impact of this use of the injunction this way:

> For almost a generation and a half, from the 1890s to the early 1930s . . . the power of the courts was invoked to assist in defeating most of the more important strikes—among them, the Pullman Strike of 1894, the coal strike of 1919, the shopmen's strike of 1922—and only a smaller proportion of the relatively less important ones . . . to prevent the successful spreading of labor boycotts . . . and . . . to prevent organizing activities where the workers were engaged under individual nonunion or "yellow-dog" contracts.[20]

Sherman Act of 1890

The Sherman Act of 1890 provided legislative support to the use of the injunction in labor disputes. It was not essential to the use of the injunction in this way, *per se,* since courts of equity could, and did, issue injunctions to forestall irreparable damages where they were the appropriate remedy. The Sherman Act went much further, however. It prohibited combinations or conspiracies which restrained or obstructed interstate commerce. It provided for criminal prosecution, for injunction relief, and for suits in which triple damages could be awarded.

Labor unions were neither exempted from nor specifically mentioned in the Sherman Act. However, a provision to exempt combinations of laborers from its application was not adopted by Congress, and the language was altered to refer not only to trusts but to "other" combinations as well.[21] In any case, the courts began to apply it, and in the Danbury Hatters case, heard in 1908, triple damages were assessed against a union. The Supreme Court eventually affirmed its validity.

The courts had now moved toward

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the position that labor unions were at least partially responsible legal entities. The fine in the Danbury Hatters case was levied against the membership of the American Federation of Labor. I say partially responsible, however, for only damage to employers was assessed, not that to non-union workers, to government, or to the general public. Indeed, there may be no way equitably to arrive at such damages. In any case, these developments concerned union leaders greatly. They launched a political campaign to get the antitrust laws modified so as to exempt unions from their applications.

The Clayton Act: "Labor's Magna Carta"

This campaign bore fruit, or so many union leaders thought, with the passage of the Clayton Antitrust Act in 1914. Section 6 of the Act does appear to exempt labor unions. It reads, in part:

> That the labor of a human being is not a commodity or article of commerce. Nothing contained in the anti-trust laws shall be construed to forbid the existence and operation of labor . . . organizations . . .; nor shall such organizations, or the members thereof, be held or construed to be illegal combinations or conspiracies in restraint of trade, under the anti-trust laws.[22]

Samuel Gompers, head of the AFL, hailed it as "Labor's Magna Carta," and declared that it was "the most important and comprehensive measure ever enacted touching the freedom of workers."[23]

Indeed, the Act may have been a boon to "the freedom of workers," but it was hardly a victory for labor unions, as matters turned out. Section 20 of the Act did provide that no restraining order should be issued by the courts of the United States in cases involving employers and employees, but there was an exception: "unless necessary to prevent irreparable injury to property, or to a property right, of the party making the application, for which injury there is no adequate remedy at law. . . ."[24] Section 20 goes on to assert that labor organizations may engage in "peaceful" and "lawful" acts. Many states proceeded to pass acts modeled on the Clayton Act.

What the courts tended to do thereafter was to rule that the Clayton Act made no substantial change in the situation. (It did make one change, for theretofore the government had to initiate requests for injunctions; this power was now extended to private parties.) It had simply declared what was settled law and good construction before it had been enacted. The injunction was more widely used than ever after its passage.

The Clayton Act did not, of course, end, or even reduce, the contest between unions and government. If

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anything, it sharpened and focused it. One writer says that "The result was that the labor injunction 'weakened and undermined the courts' and so respect for law and government, since unions considered the law so unfair and unduly restrictive of their right to self-protection." Moreover, "they did not prevent the violence which continued to be an accompaniment of industrial disputes."[25]

In essence, there is a conflict between union coercion and government. The conflict has often been obscured by treating labor disputes as if they were simply something between employers and employees. When viewed in that light exclusively, government action becomes "interference" in a labor dispute. However, when the matter is looked at from the broad perspective of its impact on others, it takes on a different cast. When unions resort to coercion, government becomes a party to the dispute, else it forgoes its monopoly of the use of force. More, if government does not intervene, it does not perform the function which justifies its existence, namely the maintenance of the peace and the protection of life and property. These have been at issue in the union contest with government.

—FOOTNOTES—

[1]See "The Origins of American Unions," *The Freeman* (January, 1980), pp. 12-24.

[2]See "An Ideology for Unions," *The Freeman* (February, 1980), pp. 109-120.

[3]E. David Cronin, ed., *Contemporary Labor-Management Relations* (New York: Henry Holt, 1960), p. 13.

[4]*Ibid.*, pp. 17-18. See also Glenn W. Miller, *American Labor and the Government* (New York: Prentice-Hall, 1948), pp. 510-11.

[5]Harold W. Metz, *Labor Policy of the Federal Government* (Washington: The Brookings Institution, 1945), p. 25.

[6]*Ibid.*

[7]Gilbert C. Fite and Jim E. Reese, *An Economic History of the United States* (Boston: Houghton Mifflin, 1965, 2nd ed.), p. 406.

[8]Philip Taft, *Organized Labor in American History* (New York: Harper & Row, 1964), p. 78.

[9]*Ibid.*, p. 79.

[10]*Ibid.*

[11]*Ibid.*, p. 82.

[12]Ida M. Tarbell, *The Nationalization of Business*, 1878-1898 (New York: Macmillan, 1936), pp. 160-61.

[13]Quoted in *ibid.*, p. 161.

[14]*Ibid.*

[15]Irving Bernstein, *Turbulent Years* (Boston: Houghton Mifflin, 1970), p. 432.

[16]Quoted in Taft, *op. cit.*, p. 141.

[17]Thomas G. Manning, ed., *The Chicago Strike of 1894* (New York: Henry Holt, 1960), p. 46.

[18]Taft, *op. cit.*, p. 154.

[19]Manning, *op. cit.*, p. 58.

[20]Harry A. Millis and Emily Clark Brown, *From the Wagner Act to Taft-Hartley* (Chicago: University of Chicago Press, 1950), p. 8.

[21]Manning, *op. cit.*, p. 56.

[22]Henry S. Commager, ed., *Documents of American History*, vol. II (New York: Appleton-Century-Crofts, 1962, 7th ed.), p. 100.

[23]Taft, *op. cit.*, p. 243.

[24]Commager, *op. cit.*, p. 101.

[25]Millis and Brown, *op. cit.*, p. 14.

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P. Dean Russell

EXPLOITATION and FREEDOM

AFTER two years of unemployment, 58-year-old Vincent Sgroi found a job answering the night-phone in a police station in New York City. While Mr. Sgroi would rather have back his old job as a highly-paid linotype operator in a printing company that went broke, he does find a form of comfort in his lower-paying government job: "At least no one is making money off me."

I suspect that Vincent Sgroi has here offered the primary reason for our continuing trend away from competitive jobs that depend on profits, and toward non-competitive jobs that depend on taxes. He's convinced that profits are made at the expense of the workers, i.e., by exploitation.

His belief is shared by perhaps more than 90 per cent of the world's people, including millions of intelligent Americans. For example, the idea that profits are made by exploiting labor is the basic theme behind most of today's television plays about business. As the TV story unfolds, the following idea will usually appear in one way or another: Profit-driven businessmen grow fat by exploiting the labor of others. We watch those plays because, basically, millions of us hard-working and anti-communist Americans agree with the message.

Those plays include situation comedies, soap operas, and serious drama. In them, businessmen lie, cheat, and steal in a continuous ef-

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fort to increase their profits. The evil acts of the Mafia are usually portrayed as typical "big business" activities. I have seen TV plays in which international businessmen (usually represented as Americans) pay large sums of money to the leaders of foreign governments in an effort to increase profits from government contracts. If they can't buy those leaders, they sometimes have them blackmailed, or even assassinated.

The businessman always wears the black hat on TV as he gets rich by following the dictionary definition of exploitation: "An unjust or improper use of another person for one's own profit or advantage."

A Dim View of Businessmen

This belief that businessmen are evil—especially the leaders of big business—is also found among our highest officials in Washington. Many of us still remember that famous incident in 1961 when the president of the United States informed the president of one of our largest corporations that "all businessmen are sons-of-bitches." That belief sometimes appears to be the prevailing viewpoint in both houses of Congress as they pass laws against the "excessive profits" that big businessmen make by exploiting the poor and helpless. I have even heard businessmen-fathers advise their college-bound sons and daughters to study for careers in government, *not* in business, if they want to make a worthwhile contribution to our nation and people.

This attitude is not inspired by a communist conspiracy. For the most part, the writers and politicians who think that profit-motivated businessmen are bad people are themselves good people. They write and speak as they do because they're convinced that profits can't be made except by exploitation.

They are just as sincere in that belief as was that real-estate agent in Florida who gained ownership of the home of a poor couple by paying a $3 overdue tax bill they didn't know about. He defended his action by claiming that, in business, the only way anyone can make a profit is to make sure someone else takes a loss, i.e., by exploitation.

If that were actually the case, of course linotypist Vincent Sgroi would be the exploiter; he got paid in full for many months while the businessmen-owners of the printing press made no profits at all and went broke. But most of us, like Mr. Sgroi, are as likely to base our decisions on emotion as we are on logic.

I'm convinced that those anti-business writers of TV and movie scripts are sincere people who truly want to stop exploitation. And they are equally sincere when they say that the best way to stop this exploitation is to abolish our profit-

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motivated economy in one way or another. The usual solution they advocate is government ownership, i.e., let business be owned in common (through our government) and be used for the benefit of all the people instead of for the profit of a privileged few.

A writer-producer of popular television shows, Douglas Benton, summed up the belief (and hope) of most of his fellow-writers in these words: "The big corporations like General Motors and International Business Machines . . . will die out. . . . We are inevitably moving toward socialism."

The McCarthy Era

Before they increase their efforts to take us there, however, I do hope those writers will take one last look at the early 1950s and a senator name McCarthy—and what happened to a fairly large number of television writers and actors when our government decided to take a more active interest in that industry and those who worked in it. Please remember that Senator Joseph McCarthy truly believed that communism is bad and that we American people are entitled to be protected against communist propaganda in the entertainment media.

Those writers and actors of a quarter-century ago quickly discovered that writers and actors can lose their jobs for political reasons in the United States just as they do in Russia. This happens in *any* nation when the government is powerful enough to question the viewpoints expressed in TV and movie scripts.

An important difference between the situation of those writers in Hollywood in the early 1950s and their counterparts in Moscow was this: In our profit-motivated economy of the United States, other companies and individuals who wanted to make a profit from the work of skilled workers could (and did) hire those blackballed writers to work for them. Also, some of those "politically discredited" writers found that, in our relatively free economy that's motivated primarily by the desire to make profits, they could continue writing under assumed names. In that fashion, several of them continued to earn good salaries. One of those writers even won an "Oscar" for superior work under his assumed name! But under the no-private-ownership and no-profit system of socialism, there is no employer other than the government. And if a writer in Russia tries to conceal his identity, he'll surely end up in prison.

You would think that anyone would be quick to understand that Aleksandr Solzhenitsyn and Andrei Sakharov (and other "refusenik" writers in Russia) were only able to get their books and articles printed by the privately-owned and free-

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market publishers in the capitalist nations. The owners of the presses in our profit-motivated economies were happy indeed to get those manuscripts because they made huge profits by publishing them. But neither Solzhenitsyn nor Sakharov has yet seen the connection between private ownership, profits, and a free press. As far as I can determine, both still believe that the presses should be used for the benefit of all the people instead of for the profit of a few.

Like their fellow-writers in the American movie industry, those Russian writers honestly believe that government ownership and/or control of industry is in the best interests of everyone—provided, of course, that it is properly and fairly administered. Both of those Russian writers are unimpressed by the viewpoint that the control of ideas (i.e., people) can become a permanent situation only when there is no profit to be made by hiring someone or by publishing his works.

Ownership in Common

Writers in the United States today cannot claim the excuse of ignorance concerning this relationship. All they need to do is look at any economy where the presses (i.e., the means of producing or reproducing words) are owned in common and must be used for the benefit of all the people instead of for the profit of a few. In every case—underline *no exception*—there is complete and absolute censorship in the "common ownership" nations. The leaders of government (acting in the name of the people) determine what will be printed. Anyone caught printing anything else is, by legal definition, a criminal.

True, in the profit-motivated economies of private ownership, there *can* be government censorship, and sometimes there is, e.g., McCarthy in the United States and Franco in Spain. But the censorship is never as complete as in the "common ownership" nations and it eventually disappears because the private owners of the presses find it highly profitable to print and sell suppressed works and ideas that you and I want to read and are willing to pay for. If it were otherwise, i.e., more profitable to work for a press that's totally controlled by government, I have no reason to doubt that's what we would have.

We Americans especially enjoy talking about freedom in the abstract as some sort of lofty ideal that we're all quite willing to die for at any time and for any reason. I'm personally convinced, however, that the primary defense against censorship in the United States (and everywhere else) is the attitude of the owner of a printing press toward the machine itself and the profit it can bring him. As long as the

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machine is his and he can sell its services to anyone who wants to have a book printed, he's likely to defend his press with his life.

For precisely that same reason (in both Russia and the United States) farmers will die in defense of their land against anyone who tries to take it from them, including their own government. Millions of farmers actually *did* die in Russia for that reason; and millions *will* die in the United States, if necessary. But let the land or the press be owned in common and used for the benefit of everyone equally—i.e., no profits for anyone—and no one is eager to risk his life in its defense. I'll defend my home and my typewriter against all comers. I'm not nearly as willing to die defending the Tennessee Valley Authority and the Tellico Dam which we all own in common.

They Dare to Speak

It was our privately-owned presses—which are directly dependent on circulation to make profits and survive—that told us about the activities of the top officials in the Nixon Administration. Suppose *The New York Times, The Washington Post,* and other profit-motivated newspapers in the United States were "owned in common" as are *Pravda* and *Izvestia* in Russia. Suppose that their survival was not based on circulation and profits but on decisions by the government managers. Do you imagine we would have had the Watergate story?

When the presses are owned in common and are used for the benefit of all the people instead of for the profit of a few, the top government officials can literally commit personal murder against their colleagues and families, and never be exposed by the newspapers they control. Stalin (and other top government officials in Russia) actually did participate in outright murder. Profit-motivated newspapers and magazines reported it. To the surprise of no one, the no-profit and common-ownership papers in Russia didn't.

When private ownership and the profit motive disappear, human freedom vanishes. You can count on it.

Those TV writers (and others) who condemn the profit motive are not looking for subsidies or unfair advantages. They want only the money they themselves generate; not a penny more. They honestly believe that they are being ripped off by the publishers and distributors. That's precisely what causes them to support common ownership or government control. They think they'll thereby get what's rightfully theirs. I've never heard any persuasive defense of common ownership except this: The deserving people (the workers) will thereby get more of the fruits of

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their labor, and the less deserving (the exploiters) will thereby get less or none at all.

I, too, want what is rightfully mine. All of it. If I believe I'm being cheated or exploited, I'll protest vigorously. Further, I'll take whatever measures I think will stop it.

I'm puzzled, however, by the naive belief of those writers that they'll get a better material deal from McCarthy (or Carter or Reagan or whomever is our next president or senator) than they'll get from the private owner who is motivated primarily by his desire to make a profit by publishing the works created by others. Since the livelihood of the private owner is totally dependent on publishing books and plays, you can depend on him to publish anything he thinks will sell at a profit, i.e., that people want to read. The politician, however, is interested in getting elected; making a profit doesn't concern him. These differing motivations, however, do determine what each will want printed. It's clear to me that I'm most likely to get this article printed by the owner of a private press who wants "to make money" from my work. Does anyone imagine I could get it printed by a government press that just wants to serve the best interests of the people?

Those popular and influential TV writers and actors seem blissfully unaware that the actions they disapprove of in the capitalist economy of private ownership do not (and cannot) disappear in the socialist economy of government ownership. Some arrangement of owners, managers, and workers necessarily continues to exist in any and all economic systems. In truth, the primary evil those writers abhor, i.e., economic power of man over man, is actually accentuated in the socialist system they endorse.

The Freedom to Move

The sheer economic powers of managers over workers in a socialist economy with only one employer (government) is obviously far greater than the power of managers over workers in General Motors or *The Wall Street Journal*. Under private ownership, employees are forever quitting their jobs in one company and going to work for another employer elsewhere. Under the socialist system of government ownership, however, there's no other employer to work for. And you must have official permission before you can change from one job to another.

In no sense is our problem of diminishing freedom due to a conspiracy on the part of anyone, including our TV writers and all other intellectuals. Our problem is actually based on a sincere and ever-present desire of almost all of us for justice—as we see it. And there's the

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difficulty, i.e., "as we see it," for justice is a purely subjective concept.

I have no mathematical solution to the problem of a "just division" of cooperative effort. This issue has occupied the best minds of the human race since we first gathered into groups to work together. I know only that "turning it over to government" is not the answer. For how can an official (elected or appointed) set a fair price on this article without also rendering an official verdict on the merit of my ideas?

I'm convinced that justice (whatever it is) is more likely to exist in a private-ownership and profit-motivated arrangement than in a common-ownership and government-controlled arrangement.

My conviction is based on a relationship to which I can find no exception, either currently or historically. It is this: When private ownership and the profit-motivated market economy disappear, human freedom disappears at the same time.

Shawn A. Bozarth

Socialism in Theory and Practice

As seen through the eyes of a U.S. exchange student in Britain

ENGLAND is a hotbed of radicalism these days, mostly socialist and frequently violent. I was introduced to this brand of revolutionary socialism through one of my professors, an admitted Marxist who was sympathetic to the Socialist Workers' Party.

His argument was simple: "The capitalist system is flawed. Capitalists overproduce, rob the workers for the sake of profit and reduce them to paupers. Faced with increasing misery, the worker must sell himself to earn money for food. He has no liberty. He spends his life at a job and has no say as to his work conditions. When will this degradation end? When the working class rises up and controls the workplace."

I also observed the rising up of the working class that fall and winter of 1978-1979. A wildcat strike of 33 toolmakers at a British Leyland factory in Birmingham was sustained, without punishment, when the

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other 3,000 workers in the plant threatened to strike in support of the 33. And this type of industrial action was not unusual in many unionized plants. The London *Times* stopped printing because workers refused to accept modern machinery that might have enabled the newspaper to earn a profit while meeting wage demands.

There were signs of a general strike by early 1979. Lorry drivers walked off the job. Soon there were shortages of food, especially milk for children. Dock workers struck and beat up fellow workers forced by financial necessity to try to cross picket lines. Some who did cross were subsequently expelled from the union and thus virtually barred from continuing their trade after the strike. Car bombings were reported. One newspaper was discouraged from publishing articles critical of union tactics because the newsprint union threatened to strike.

In Liverpool the morgue was closed by a strike of 12 gravediggers. London ambulance drivers struck for higher wages, leaving emergency patients to fend for themselves until the government called on the Army Medical Corps for help. Several London hospitals were so hit by walkouts of medical personnel that sick patients, including children, were unattended for hours. Striking union employees voted to search school children for sandwiches, hoping the hungry youngsters would then force their parents to persuade the schools to settle.

The strikes and ugliness subsided in March. But I had seen enough of Socialism to realize the emptiness of the promise of liberty and prosperity for the workers. Putting socialist theory into practice involves violence against persons, destruction of property, censorship of ideas, and suffering for everyone concerned. ⊛

IDEAS ON LIBERTY

Sylvester Petro

CORRUPTION and disguised anarchy will characterize both the state and voluntary associations when they have confused their respective roles. While their services to society are of the highest order of importance when confined properly in accordance with the principles of the free society, private associations and the state become the worst and most vicious enemies of man's freedom when they confuse their nature and function. The result of such confusion is not really "society"; it is the war of all against all.

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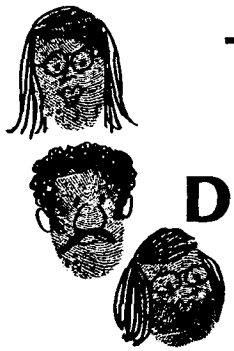
Scott W. Bixler



The Right to Discriminate

MUCH of the case for the free market is built upon the belief in the sanctity of free choice. This includes not only the freedom to trade and associate with whomever one chooses, but also, and equally important, the freedom *not* to trade or associate.

There are only two ways for man to satisfy his needs. One method involves the use of coercion, which includes the threat of violence or force. The other is freedom, involving the process of voluntary exchange.

In acting to further his own well-being, man will not exchange values unless he believes he will benefit by doing so. A man who purchases a new suit for example, values the suit more than he values the money given in exchange. The merchant values the money more than the suit. Both parties have improved their positions.

Whenever a third party enters the picture, either preventing exchanges that would normally have taken place, or forcing a person on either side of a trade to make an exchange against his will, mutual benefit is no longer present. One or both parties to the transaction must necessarily lose.

Such a restriction of freedom is evident in the various laws intended to provide equal employment opportunity for minorities, women, handicapped individuals, and the like. These laws are essentially denials of the market process of voluntary exchange, with consequences detrimental to all parties involved.

The Random House Dictionary defines discrimination as follows: "to make a distinction in favor of or

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against a person or thing on the basis of the group, class, or category to which a person or thing belongs, rather than according to actual merit." The alleged intent of the equal opportunity laws is to insure against discrimination. In order to prove that employers have discriminated against minorities in their hiring and promoting policies, the government must have a method to demonstrate that discrimination has occurred.

One method commonly used is statistical representation. An analysis of the percentages of various minority groups in the population is compared to the percentages employed in a given industry. Assuming a minority comprised twenty per cent of a given population, this theory holds that if the percentage of this same minority in the industry is only five per cent, then discrimination has taken place.

This procedure, however, does not allow for differences in age and education among individuals. The fallacy of statistical representation as evidence of discrimination is well documented. Thomas Sowell, a black economics professor at U.C.L.A., writes the following:

> If various ethnic groups were approximately similar in age distribution and education, representation, based on comparisons of a given group's percentage in the population, might make sense. . . . Virtually every underrepresented racial or ethnic group in the U.S. has a lower than average age and consists disproportionately of children and inexperienced young adults. Almost invariably these groups also have less education, both quantitatively and qualitatively . . .
>
> Half of the Jewish population of the U.S. is forty-five or older, but only twelve per cent of the Puerto Rican population is that old. Even if Jews and Puerto Ricans were identical in every other respect, and even if no employer ever had a speck of prejudice, there would still be huge disparities between the two groups, in top level positions, just from age differences alone. . . . Representation in such jobs cannot be compared to representation in a population that includes many five year olds. Yet it is.[1]

Affirmative Action Quotas

Government bureaucrats, however, armed with supposedly conclusive proof of discrimination, then impose various quotas which they believe will insure that no individual will suffer any form of discrimination. Wrapped in the guise of "affirmative action" laws, these quotas present an employer with a curious dilemma. If the law dictates, for example, that he increase the number of minority group employees from five to ten, he must in the process, actually discriminate against those individuals who are *not* members of a minority group. This is referred to as reverse discrimination. To be consistent, it should be opposed as fervently as

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discrimination against minorities. The employer has clearly "made a distinction in favor of" those members of a designated minority group.

Similarly, because of quotas, an employer is forced to discriminate against individuals who are not included in such categories—individuals such as disabled veterans, Vietnam veterans, and handicapped persons. How is the employer to explain his failure to adhere to a supposed policy of nondiscrimination while in the process of implementing various quotas he must blatantly discriminate against non-categorized individuals?

The government, in its attempt to provide equal employment opportunity, has, in effect, designated special categories of people as automatically *less* qualified simply because they fall within that group. This seems to indicate a belief that minorities are losers who will never have anything unless someone gives it to them. As a result, members of minority groups eventually must come to wonder if they receive their positions because of their merits (measured as for everyone else) or because they are a minority.

The Unchangeable Past

One of the major arguments presented by those in favor of affirmative action is that it will in some way atone for the ill-treatment of minorities in the past. A closer examination of the logic behind this argument reveals that it embodies the belief that two wrongs make a right. Is it reasonable to believe that giving someone a special privilege today will compensate for the mistreatment of someone else one hundred years ago? Again, Professor Sowell explains:

> Is it reasonable to believe that giving someone a special privilege today will compensate for the mistreatment of someone else one hundred years ago?

> The past is a great unchangeable fact. Nothing is going to undo its sufferings and injustices, whatever their magnitude. . . . Neither the sins nor the sufferings of those now dead are within our power to change. Being honest and honorable with the people living in our own time is more than enough moral challenge, without indulging in illusions about rewriting moral history with numbers and categories.[2]

Affirmative action has other effects upon the employer and the employees which must be considered. In most cases, employees working together will get along better, and thus be more productive, if they know they were all hired or promoted on the basis of roughly similar qualification standards, rather than to fill some quota mandated by

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government. Cooperation among employees and higher productivity are goals for which most employers continually strive.

Additionally, the lowering of employment standards in order to reach certain objectives is highly suspect. These lower standards mean that an employer is forced into hiring and promoting people other than the best available to him. Operating efficiency is correspondingly lower than it otherwise would have been. These policies must ultimately lead to ill will and conflict among employees.

Unseen Consequences

In many cases affirmative action has provided employers with incentives which are contrary to its intent. Employing someone to fill a quota gets the government off an employer's back for the moment, but somewhere down the road he faces the possibility of a costly lawsuit brought by unhappy applicants or employees claiming that quotas denied them a position. The threat of such action is an incentive *not* to hire or promote from the groups designated by the government.

Similarly, the logic of the equal opportunity laws presents another dilemma to the employer. Suppose a given employer actually wants to hire more minority group members and afford them greater opportunities than he believes they have had in the past. If he consistently hires the minority group member from a number of applicants with similar qualifications, he is not complying with the law. The current law dictates that he should not be allowed to put his beliefs into practice![3]

The law thus harms (1) the employer, who seeks higher productivity, greater efficiency, and larger profits, (2) other employees who desire to be treated fairly, and (3) the minority group member, who must suffer a loss of pride and self-esteem.

Looking at the other side of the employer-employee relationship affords another perspective on the argument.

An applicant for a job is filling the same role as does a consumer in any other transaction. What is often forgotten is that a job is really the same as any other exchange. The difference is that it is ongoing. The employer trades wages or salaries in exchange for the employee's labor and/or services. The employee exchanges his labor for wages.

Employees and applicants discriminate in their choice of and in their dealings with their employers. These choices are quite often made on the basis of what many people would refer to as irrational reasons. As an example, it would probably be impossible to ascertain how many applicants refused a position (or how many simply did not apply) because

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they believed their future supervisor's dress was inappropriate, hair too long, or skin color objectionable.

Intervention by government on only one side of the employer-employee exchange seems inconsistent. Surely an employer could show that he had been harmed by qualified applicants who had refused positions on the basis of whim or prejudice.

Only one person can work at each job. Consequently, there must be discrimination; someone must choose the one for the job. The question then is: Who shall have the right of decision?

An Arbitrary Decision

The government has no basis for deciding who shall have a particular job in the private sector. The bureaucrat can make only an arbitrary decision. He is usually far removed from the day-to-day personnel decisions made by individual employers. Laws passed to eliminate discrimination in employment in reality do not eliminate it at all. They merely transfer the right of discrimination to the government bureaucrat.

We frequently lose sight of the fact that government is not the selfless, unerring, organization it is often pictured to be. It is indeed made up of individuals subject to the same fundamental laws of human action as are all other persons. Because we sometimes forget this fact, government is often assigned powers that, if thought of in terms of particular individuals, would be considered totally unacceptable.

Only one person can work at each job. Consequently, there must be discrimination; someone must choose the one for the job.

What would our reaction be, for example, if our neighbor were to threaten us at gunpoint if we did not hire his fifteen-year-old son to mow our lawn? Surely we would consider this a flagrant violation of our individual freedom of choice.

What accounts for this widespread belief in the omniscience of government? Why is the bureaucrat looked to for answers to problems that most people would consider to be none of his concern? The answer might be found by taking a closer look at the nature of bureaucracy.

The bureaucrat has an unquestioned and seemingly never-ending desire to extend his power and influence. Lacking a market test of his skills, he must prove his value through his ability to curry political favor. He feels that in order for anything to function smoothly, he must control it.

Coupled with this is the bureaucrat's belief that individuals for the

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most part simply are not intelligent enough to handle their own affairs. Yet, these same individuals supposedly are smart enough to elect their rulers, who will gladly tell them how to run their own affairs!

Furthermore, the bureaucrat usually cannot see, or is not interested in, the long-term consequences of his actions. He is interested only in what will enable him to maintain his position. The bureaucrat tends to lose sight of the indirect effects upon all other individuals who are not directly in the path of his regulations.

Possibly the overriding reason why bureaucrats favor anti-discrimination laws is that it simply is not in their interest to lose the "minority problem" issue. Huge empires have emerged to administer the various equal employment opportunity programs. It is in the best interests of the individuals connected with these agencies to see their particular bureaucracy grow larger. It is not in their interest to find a solution to the "problem" for which their agency was created. If suddenly the problem were to be solved, there would no longer be a need for these empires, and the bureaucrats would be out of a job.

The question remains: Who is to have the right to choose the one for the job?

If we think of a job or position in terms of an ongoing voluntary exchange, it follows that the employer and the employee are the only two persons who have a proper interest in the matter. Third party claims usually introduce conflict and injustice.

Whose Choice Is Valid?

Proponents of affirmative action claim that, in cases where relative equality in productivity can be shown, there is harm done to minority groups when an employer refuses to hire from these groups. Is this a valid claim?

If we think of a job or position in terms of an ongoing voluntary exchange, it follows that the employer and the employee are the only two persons who have a proper interest in the matter.

Would we consider it "discrimination" for example, if an individual chose to go to a concert to hear a classical pianist rather than a jazz pianist? Certainly not. It would be viewed as evidence of the individual's taste.

Many people object, however, when an employer prefers to hire a white person over a black person, or a male over a female. The objectors claim that those not hired have been harmed. But what about the jazz pianist? Assuming a great many

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people prefer classical music to jazz, is the jazz pianist not also harmed as a result of the limiting of his employment opportunities?

In fact, the jazz pianist is being "harmed." He would obviously be better off if more people preferred his music to that of the classical pianist. But if one person can find employment and another cannot, it means that one is rendering services which the community regards as worth paying for and the other is not. As Milton Friedman points out, there are two very different kinds of harm:

> One kind is the positive harm that one individual does another by physical force, or by forcing him to enter into a contract without his consent. An obvious example is the man who hits another over the head with a blackjack. . . . The second kind is the negative harm that occurs when two individuals are unable to find mutually acceptable contracts, as when I am unwilling to buy something that someone wants to sell me and therefore make him worse off than he would be if I bought the item. . . . There is a strong case for using government to prevent one person from imposing positive harm, which is to say, to prevent coercion. There is no case whatsoever for using government to avoid the negative kind of "harm." On the contrary, such government intervention reduces freedom and limits voluntary cooperation.[4]

In our example, discrimination has occurred in both cases. The difference is that we sympathize with the individual's choice, but we do not agree with the choice made by the employer. But what areas of the market are to be exempt from laws prohibiting free choice if the justification for such laws is the belief that one group may impose their tastes on another?

Discrimination involves the right to choose between values. The individual's right to choose is fundamental to the process of voluntary exchange. In order to make a choice between alternatives, he must possess the ability to distinguish between values. Laws against discrimination attempt to eliminate the differences in these values, in the process removing the ability to differentiate. Ultimately all exchange would come to an end. As F. A. Harper points out:

> One cannot question the basis for a choice without questioning the right of choice itself. There isn't much sense to saying that I have the right, for instance, to select any kind of cheese I wish, but that I have no right to select one in preference to another because it tastes better, or has a more appealing color, or is made from the milk of better cows. The right of choice is the right of choice; the reasons therefor become a sacred part of the right of choice itself.[5]

Government Dictates Everything

Equal opportunity laws, if taken to their logical conclusion, appoint government as the sole determinant

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not only of who is to be employed, but also where a person works, at what wages, conditions, hours, and so on. If it is admitted that government intervention is necessary in one area of individual consumption because some persons make choices which are deemed unacceptable, then shouldn't government dictate *all* choices?

> Equal opportunity laws, if taken to their logical conclusion, appoint government as the sole determinant not only of who is to be employed, but also where a person works, at what wages, conditions, hours, and so on.

Soviet Russia and similar totalitarian countries are examples of nations that have attempted to eliminate freedom of choice in employment. Are we to think that there is greater opportunity in such countries? Are working conditions and living standards in these countries superior to those enjoyed by people who have been allowed some measure of free choice?

In any society, some individuals may indeed be extremely prejudiced or even bigoted. What must be recognized, however, is that prejudice and bigotry are impossible to eliminate by passing laws. Man should be entitled to whatever prejudices he wishes. This is his opinion. What he should *not* have is the right to impose his prejudices on others. As Ayn Rand points out:

> No man . . . has any claim to the property of another man. A man's rights are not violated by a private individual's refusal to deal with him. Racism is an evil, irrational and morally contemptible doctrine—but doctrines cannot be forbidden or prescribed by law. Just as we have to protect a communist's freedom of speech, even though his doctrines are evil, so we have to protect a racist's right to use and dispose of his own property. Private racism is not a legal, but a moral issue—and can be fought only by private means, such as economic boycott or social ostracism.[6]

Proponents of the equal opportunity laws are thus faced with the reality that what they advocate is actually an embodiment of the very principles which they supposedly abhor. By clamoring for "racial equality" they are, in effect, calling for a clear distinction among various minorities. This serves only to stereotype certain minority groups as underprivileged, uneducated, or whatever. One wonders who the real advocates of racism are if the title cannot be applied to those proponents who favor special treatment for some individuals at the expense of the rights of others.

We must then object to the equal opportunity laws for two reasons.

First, they do not accomplish what is intended. Indeed they are actually

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detrimental to all parties concerned, including those whom they were designed to help.

Second, they are based on the fallacy of interventionism which, when taken to its logical conclusion, denies *all* men the freedom of choice, thereby violating the principles of individual liberty.

Assuming that the ends we desire involve a reduction in the extent to which minorities will suffer disadvantages in the market, what can be offered to provide these ends?

Clearly, it must be a system that provides incentives for employers and consumers to cast aside such differences in individuals as skin color, religion, background, and so forth. It must be a system that emphasizes man's productive ability and not who his ancestors might have been—one that rewards ambition and individual ability. This system is called free market capitalism.

The free market provides great incentive for producers to use the factors of production as efficiently as possible. An employer who practices irrational discrimination in employment will suffer as a result.

It is the free market that has provided minorities the greatest source of opportunity with respect to their economic activities. The free market provides great incentives for producers to use the factors of production as efficiently as possible. An employer who practices irrational discrimination in employment will suffer as a result. Milton Friedman explains this process as follows:

> . . . there is an economic incentive in a free market to separate economic efficiency from other characteristics of the individual. A businessman or an entrepreneur who expresses preferences in his business activities that are not related to productive efficiency is at a disadvantage compared to other individuals who do not. Such an individual is in effect imposing higher costs on himself than are other individuals who do not have such preferences. Hence, in a free market they will tend to drive him out.[7]

Similarly, a consumer must also bear the costs of his discrimination in the form of lost services. If he refuses to buy goods or services from individuals he dislikes, he thereby limits his range of choices. He may then have to go without such goods or services or will generally pay a higher price for what he does buy or receive elsewhere.

Far from being the enemy of minority groups, it is the free market that can provide real gains for all minorities as it continually imposes high costs upon employers who choose to hire on the basis of irrelevant characteristics instead of on the basis of merit and qualifications.

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If some people make decisions which we view as immoral, the way to change these values is by peaceful persuasion. The solution is surely not to impose our values on others.

The market process of voluntary exchange will always be superior in its ability to satisfy consumer desires. Those who defend free market capitalism see discrimination as a necessary ingredient in this process. Our freedom to make choices is the basis for all market activity. In the words of F. A. Harper:

> If there were no discrimination in employment—no rights of choice—there would be no means by which persons could find their best place to work; no means by which persons could develop and use their best talents; no means by which management could be good rather than bad; no means by which accomplishment and merit could find reward.[8]

Discrimination, then, is vital to the proper functioning of the market economy. It is a process of differentiation—a process by which we demonstrate our preferences. The individual must be free to choose. He must have the right to discriminate between values.

Laws which restrict two or more individuals from entering into voluntary contracts, or which force them to exchange against their will, cannot be shown to be the policies necessary for human progress. If some people make decisions which we view as immoral, the way to change these values is by peaceful persuasion. The solution is surely not to impose our values on others.

If our goal is to provide a system that will produce the highest standard of living for all men, one which provides the most efficient means of satisfying human wants and desires, one that is consistent with the principles of private property and voluntary exchange, then we must take every opportunity to advance the fundamental concepts of individual liberty. We must choose freedom.

—FOOTNOTES—

[1]Thomas Sowell, "Are Quotas Good for Blacks?" *Commentary*, June 1978, pp. 39-40.

[2]*Ibid.*, p. 40.

[3]Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962), p. 114.

[4]*Ibid.*, pp. 112-113.

[5]F. A. Harper, "Discrimination," *Essays on Liberty*, Vol. II (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1954), pp. 370-371.

[6]Ayn Rand, *The Virtue of Selfishness* (New York: New American Library, 1963), p. 134.

[7]Friedman, *op. cit.*, pp. 109-110.

[8]Harper, *op. cit.*, p. 371.

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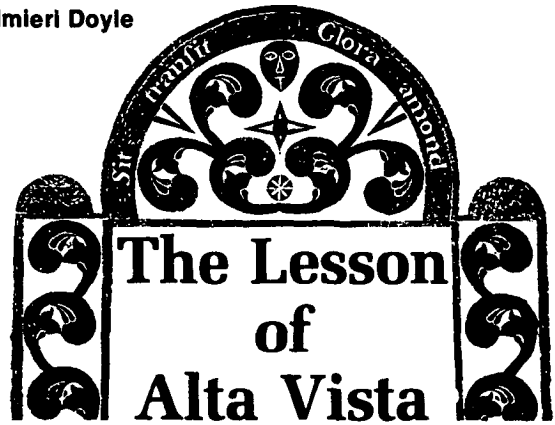
Dorothy Palmieri Doyle



The Lesson of Alta Vista

THE auto repair jack lifted my car from the oil-spattered floor. Were it not for a contrary device called an alternator, I could have been winding into misty, morning clouds on a shaded mountain road. Instead, I trudged across the red, Georgia clay toward the only excitement the city of Gainesville held within the reach of my tender, city feet—the cemetery. It beats looking at motel walls for two hours, I reasoned.

The old city with its noisy, dashing, morning traffic disappeared into the trees and rolling countryside as I climbed the hill. *Alta Vista,* highest view, they had called it. The peaceful hillside provided a classic scene of gentle, green Georgian beauty. I followed the grassy path strewn with wildflowers to the headstones.

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Some gravestones marked the resting spot of people born in the 1700's, but most were from the 1800's and early 1900's. The family unit had been treasured judging from all those buried in family plots. The ghastly reason was revealed in cold, stone figures. Members of households were often little more than transients. Memorial cradles dotted the hillside. The number of graves of children and babies horrified me. I stifled a belated cry of grief as I passed a plot holding eight tiny headstones. Many graves held the remains of young women, evidence that new life had been a risk to mother as well as child. Men, too, were no strangers to early death. Carved Bible quotations and messages revealed the pain of those who had loved, their unshakable faith, and finally, their acceptance.

I was overwhelmed by a sense of

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loss that I could never meet those I walked among. In the relative history of man, only brief seconds had passed, yet their lives were remote from ours. They had lost wives, children, husbands as routinely as we in our mobile society lose addresses. Nevertheless, almost in defiance of the power of death, they had found the strength to cope with their mortality. The enormity of their courage made me feel insignificantly small.

I moved through the grass at the edge of the trees to the grave of James Milton Smith, Governor of Georgia, Lt. Colonel in the Confederate Army, Chairman of the Georgia Railroad Commission, and Superior Court Judge. I pictured Georgia as it was when Jim Smith was growing up—horses, carriages, kerosene lanterns, small academies and one-room schools. It was difficult for me to conceive of an American having the background to meet his many challenges without modern education. Yet, as a child, Governor Smith had been educated with little more than a few books and a slate—no electronic equipment nor standardized assessment tests, no alien experts were his measure. Magnificent simplicity.

I felt indebted to James Smith and all those buried at *Alta Vista* along with the multitude like them across the United States. They had striven valiantly to plant the seeds for our world of longer, better lives. They had been free to choose an alternate path, but in their innate goodness, they had chosen to improve the quantity and the quality of our existence. I was awed with admiration. I had to admit I was also envious. It must have been glorious to have such freedom, such control over your own life! Though I shared the goals of those I walked among, I had to admit that the impassable gap that lay between us was larger than death.

Something frightening had happened between the lives of the people buried at *Alta Vista* and ours. It had begun innocently and benign. "They should do something about it!" was the cry and catalyst. The chorus of *they shoulds* grew larger and louder. They should widen this road. They should do something to prevent the deaths of pedestrians. They should protect us from unscrupulous merchants using dangerous chemicals to hide the fact that they are selling stale, spoiling food. They should help the poor. They should see that no one is denied a college education. They should assist those who cling to life by a fragile thread. The requests that *they* take action are endless.

To those buried at *Alta Vista, they* meant us. Today it is different. *They* has a life of its own, a life apart from ours. It is unapproachable, unreachable, untouchable. It is all powerful. It renders us helpless. Somewhere

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through the busy years without our noticing, progress became more important than those it served. We created a monster of technology and information that turned on its creators diminishing the brilliant minds that conceived it, dehumanizing our good will. We stopped believing in ourselves and accepted the notion that we are no longer worthy of our own control. We are left stumbling, bewildered by a way of life that tells us what we may eat, where we may walk, and what medical treatment we may have.

The fruit of our labor is taken from us and the half-eaten remains are given back grudgingly, turning the pride of men and women into childish anticipation. We are so grateful to the provider for recognizing our right to consume and so pleased by the fruit's pleasant taste, that the means of its creation escapes us. We tend to think of the provider as an all-powerful god that created something from nothing. The fact that the provision's existence depends on individual initiative, effort, talent, and trade is as relevant to us as a traffic jam on the other side of the world—it means nothing to us far away on the receiving end. The flashy new packaging obscures our vision of the product. We don't even recognize our own creations and sacrifices. We forget that *they* took from someone in order to give—*they* took from us.

At the end of the road is our ultimate loss of human dignity. After being denied all the medical "long shots" at life, ironically, we lie with arms secured to prevent our interfering with the perverse, mechanical magic that forces cold, institutional air in and out of our weary, unwilling lungs in an absurd attempt to make human bodies last forever.

I reluctantly descended the grassy hill, my face and arms prickling with the sun's growing intensity. I had come to aging *Alta Vista* cemetery looking for something to entertain my city mind. I had received, instead, a country lesson from those who had long ceased to speak. We are a nation rich in people, each one different from the rest, each valuable to the others because of his unique way of meeting life's challenges, each a temporary gift to our nation. We are descendants of the courageous, intelligent, resourceful people buried at *Alta Vista* and across our nation, magnificent people who turned the death of children into long life spans and kerosene lanterns into laser spectaculars. Can we be any less than that we are made of?

I passed through the iron gates of *Alta Vista* into the buffeting gusts from passing cars, the ageless wisdom of Wordsworth resounding in my brain—"The world is too much with us."

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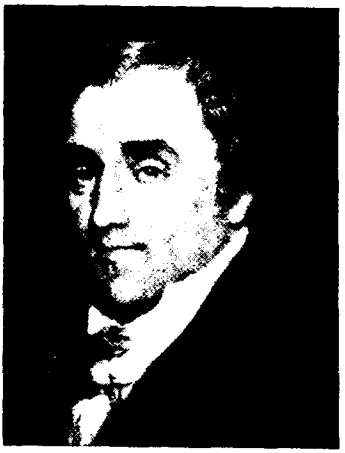
Gregory Wolfe

Fisher Ames:

Forgotten Defender of Liberty



WHEN students of the free society look back into history for the first exposition of the private enterprise economy, they rightly turn to Adam Smith's *The Wealth of Nations*. Smith contended that the wealth of a nation is not dependent on how much gold or other precious metals it has in its coffers, but on the quantity of the goods and services produced by the people. Individuals, if left alone by the state, Smith wrote, would work together in the competitive market to produce wealth for the whole of society.

Another outstanding historic defender of ordered liberty is the French economist, statesman and author, Frederic Bastiat. Writing at the time of the Revolutions of 1848, Bastiat combatted the socialist fallacies which were threatening to take over European society. Both in such written works as *The Law,* and in his role as statesman, Bastiat upheld the principles of limited government, private property, and the market economy.

In the context of early American history, and especially the founding of the United States, two of the best known proponents of a free economy were Pelatiah Webster and Thomas Jefferson. Webster warned Americans that inflation would destroy the economy by increasing the money supply without a corresponding growth in production, and thus debase the currency to worthlessness. And Jefferson is often quoted as saying that individuals competing freely in the marketplace will

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help bring about a prosperous commonwealth.

But there is an American of the generation of the Founding Fathers who had read and understood the theoretical principles of the free market as expounded by Adam Smith, and, like Bastiat, had acted out these principles in the realm of politics. He is one of our forgotten defenders of ordered liberty, and deserves the attention of all serious students of the free society. Fisher Ames, of Dedham in Massachusetts, was a lifelong champion of private property, and of an economy unhampered by government intervention.

Educational Background

Born of a family long settled in New England, Fisher Ames received a superior early education, being steeped in the classics and a thorough knowledge of antiquity. Ames was admitted to Harvard College at the age of twelve and soon gained a reputation for his oratorical skills. After studying under one of Boston's leading lawyers, Ames joined the bar and rose to prominence in Massachusetts politics. He was sent to the Concord Convention which met during the Revolution to regulate prices, and also to the Massachusetts Ratifying Convention, which debated the newly-framed Constitution. Later, Ames was elected to the first two sessions of the Congress of the United States, and participated in the writing of the First Amendment and in structuring the American government.

Fisher Ames's career in Congress was short, for as Russell Kirk has pointed out, Ames "was many years dying."[1] Plagued by illness most of his life, Ames was a melancholy man who had a pessimistic outlook on America's future. Yet, his was a penetrating intellect, and his warnings about the "dangers to American liberty" (as he phrased it) now carry a prophetic ring. In his later years, Ames set his ideas down in numerous essays, and this legacy shows a man who deserves to be recognized as one of the greatest advocates of the free society in American history.

Ames's ideas on politics and economics were formed during the tumultuous years at the close of the 18th century. It was during this period in Ames's native Massachusetts that such events as Shays' Rebellion forced men to come to grips with the relation of the state to society. In 1786 a number of rural inhabitants of western Massachusetts, aggravated by rigid financial policies and falling agricultural prices, prevented the meeting of the county court houses as a form of protest. Shays and his followers acted under the assumption that individuals had an inherent right to forceful protest. This anarchic attitude frightened and outraged

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Ames and convinced him of the need for a state which would protect the rights of individual citizens. Ames thus came to the same conclusion that the Founding Fathers would reach: only through a limited but competent government could the individual's rights be protected from force or fraud.

Though Ames was convinced that government was needed to prevent anarchy in society, he by no means envisioned a state which intervened in the economy or the private affairs of citizens. To be sure, Ames felt the state should be vigorous and capable of carrying out its role of "umpire" and guarantor of individual freedom. He also crusaded for a strong, central government for the United States. But he wanted a government which would ensure peace and order, and would leave men *free* to pursue their own ends within the bounds of the law.

Private Property Defended

To Ames, private property was one of the essential requirements of a free society. Without the right to own and dispose of property as the individual saw fit, Ames felt society would degenerate into tyranny and mediocrity. For a man is free only when he can gain a livelihood and choose how to dispose of it. This fundamental right of private property Ames felt was jeopardized by such events as Shays' Rebellion. As Theodore Sedgewick, a prominent Federalist and friend of Ames, wrote at this time: "Every man of observation is convinced that the end of government security cannot be attained by the exercise of principles founded on democratic equality. A war is now actually levied on the virtue, property and distinctions of the community."[2] Throughout his life, Ames would fight to defend private property.

Ames's convictions about the role of government in relation to the economy were clear from the beginning of his public life. At the very time when Smith's *The Wealth of Nations* was being published in England, Ames went as a delegate from Dedham to a convention in Concord. Called by the Boston Committee of Correspondence, the convention met to regulate prices during the Revolution. Ames's position at the Concord convention is summed up well by his biographer, Winfred Bernhard:

> Ames spoke emphatically against the whole concept of restrictions. He was convinced that employing the power of the state to establish the value of commodities was false, as prices resulted from agreement and consent between buyer and seller and could not be arbitrarily determined. The embarrassment of a depreciating currency, he stated, was inevitable and could be met only with patience and fortitude.[3]

Ames was not heeded in his own

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day; nor would he be heard today. Ames felt that the market could be supported only by moral and spiritual principles. Our own society has far less patience and fortitude than that of Ames, and it is doubtful whether most Americans could sacrifice their immediate satisfaction to any form of economic "hardship." Ames knew that freedom in society and the economy could arise only from a people whose souls were ordered and virtuous.

Freedom to Trade

In his statements at Concord, Ames displayed an understanding of the workings of the free market. His belief that government intervention was detrimental to the economy was reinforced by his reading of Adam Smith. During the First Congress, Ames admired and supported many of the economic proposals of James Madison. He felt sure that Madison had read Smith and was intelligently applying Smith's concepts to economic legislation. Ames's satisfaction did not last long, however, for Madison soon began introducing bills which in effect declared war on all of America's trading partners, using economic restrictions as weapons. Ames thought these efforts at forcing other countries to trade "favorably" with the United States would either be ineffectual or actually harmful. In one of his best orations in the House, Ames argued against Madison's proposals. "Were I invested with the trust to legislate for all mankind," Ames declared, "it is very probable the first act of my authority would be to throw all the restrictive and prohibitory laws of trade onto the fire. . . ." Speaking of the regulations and tariffs in Madison's bill, Ames continued:

> On the whole, the resolutions contain two great principles: to control trade by law, instead of leaving it to the better management of the merchants; and the principle of sumptuary law. To play the tyrant in the counting house, and in directing the private expenses of our citizens, are employments equally unworthy of discussion.[4]

Ames saw these measures as infringements on individual freedom as well as just poor economics. Madison's bill was eventually tabled and then abandoned, but the tide was against Ames here as elsewhere, and interventionist policies would triumph in time.

Ames was influenced not only by Adam Smith but also by another British liberal: Edmund Burke. Along with that philosopher of conservatism, Ames knew that a free economy existed only within a free society. But free societies do not arise out of some conscious "social contract" or from the abstract plan of the political metaphysician. Order, justice and freedom in the commonwealth emerge gradually as the laws and institutions of a people

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build up the framework of society. Habit and custom, prescription and prejudice are the buttresses of the commonwealth. Tampering willy-nilly with the constitution of society can only break civilized forms loose from their grounding. Both Ames and Burke saw the American revolution not as a radical reconstitution of things, but as an effort to preserve the American colonial tradition from English innovation and meddling. These men knew that change would and should come. But for change to be true progress, it must be seen in the light of the experience and tradition of a people.

The French Revolution

The close of the 18th century was dominated by the French Revolution. That catastrophic political upheaval preoccupied Ames as well as Burke. To them, this was a real revolution, for it was an attempt to restructure French society according to an ideological system of ideas. Ideology, as understood by Ames and Burke, is a "second reality," an abstract set of ideas dreamed up in the mind of someone who is convinced his society is totally evil and unredeemable. The French revolutionaries sought to impose this ideological "dream" upon their nation, and the clash of ideology with reality culminated in the horror and bloodshed of the Reign of Terror. Ames feared that the ideology of the French Revolution would take root in America, and he argued eloquently against it. The desire for innovation and reform, Ames said, perennially tempts people into accepting ideology.

The two main concepts to emerge from the ideology of the French Revolution were equality and natural rights. Though they are noble-sounding words, Ames knew them to be inimical to the free society. Instead of civil rights, based on man's spiritual nature and secured through centuries of tradition, the ideologists posited the rights of nature which existed in some idyllic pre-civilized time. If only men would throw off their institutions and laws which are corrupt and evil, a new dawn of freedom would come. But Ames understood man's nature to be fallen and not essentially good, and thus he realized that institutions and law were precisely the guarantors of order, and hence of freedom.

Ames believed that the ideological notion of equality was perhaps the most dangerous idea to come out of the French Revolution. Equality according to the ideologists meant not only equality before the law and before God, but equality of condition. This too arose from the idea that men in the state of nature were perfectly equal. The ideologists were not satisfied with the fact that the free society gives each man the opportunity to better his condition

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through effort, discipline and sacrifice.

Ames held that the egalitarians would attack both private property and free enterprise in order to achieve their ends. "The philosophers among the democrats will no doubt insist, that they do not mean to equalize property, that they contend only for an equality of rights . . . " But, Ames goes on to say, "on close examination, it turns out, that their notion is, that all the citizens of a republick have an equal right to political power."[5] As Ames warned time and again, the demagogues will promise "power to the people," but will take the purse-strings and wield the power themselves. Property rights inevitably will be violated by egalitarians. John Randolph of Roanoke formulated succinctly what he felt the demagogues were saying in the phrase: "We are numbers. You are property."

An Equality of Poverty

The drive for equality of condition, said Ames, would ultimately end in the loss of individual freedom, the impoverishment of the people, and the aggrandizement of the demagogues. State-enforced equality would end merely in mediocrity, an equality of poverty, Ames said. Without the opportunity to better oneself and enjoy the fruits of one's labors, there will be no incentive to produce wealth. At the end of his life, Ames believed that the very pillars of the free society were being destroyed. Fisher Ames, as Russell Kirk has put it, "expired sunk deep in despair, prophesying mediocrity in spirit, anarchy in society."[6]

This short survey of Ames's ideas does little justice to the man. His greatness lies not in the originality of his ideas, but in his learned and eloquent exposition of those principles of limited government and the free economy, and in his ability to apply those principles in the realm of public life. Despite the fact that he died expecting the imminent collapse of American liberty, Ames's prophecies have been fulfilled in many ways. To study Fisher Ames is to see that the clash of ideas between the proponents of the free society and its enemies is as relevant to our own time as it was to his.

—FOOTNOTES—

[1]Russell Kirk, *The Conservative Mind* (Chicago: Henry Regnery Company, 1972), p. 70.

[2]Quoted in Winfred E.A. Bernhard, *Fisher Ames: Federalist and Statesman, 1758-1808* (Chapel Hill, N.C.: University of North Carolina Press, 1965), p. 47.

[3]Bernhard, pp. 35-6.

[4]Fisher Ames, *Works of Fisher Ames* (Boston: T.B. Wait & Co., 1809), p. 48.

[5]Ames, pp. 232-234.

[6]Kirk, p. 71.

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SEEDS OF PROGRESS

In his twenty-sixth book, *Seeds of Progress* (Foundation for Economic Education, $6.00 cloth, $1.50 paperback), Leonard Read talks a good deal about the Law of Attraction. Creation, he says, is a magnetic force. Wise men, applying the Divine Principle at the human level, draw others to their standard by their exemplary behavior. Whether Mr. Read interprets the Cosmic Order correctly or not I leave to the theologians. But as for himself, he has been a living embodiment of the power of attraction for many, many years.

Basically, one Read book is like another, for Leonard Read staked out his "freedom philosophy," with its free market and limited government principles, back in the Nineteen Thirties and Forties. Once he knew where he was headed, he never swerved—or, as he likes to put it, "leaked." But if one Read book resembles another in philosophical orientation, they abound in fresh nuances. Anatole France said criticism was the adventures of a soul among masterpieces. A Leonard Read book is the adventure of a soul among philosophers. Whether it is the stoic Epictetus or Saint Augustine, or the Goethe who unburdened himself to Eckermann, some newly encountered philosopher is always setting Leonard Read off on a fresh tangent in building or sustaining the case for the freedom philosophy.

As a result, Leonard Read gets away from the cliches of his subject. There is, for example, his discussion

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of the idea of responsibility. A certain type of conservative can be counted on to say there are no rights without reciprocal duties. Implicit in this formulation is the suggestion of compulsion: you must do thus and so in order to earn a given right. The thing won't wash in law, for the Bill of Rights was not accompanied by a Bill of Duties. It won't wash under any theory of democratic politics, either, for if rights are dependent on duties it would set the State up as the arbitrator in a trade. The idea of "inalienable" rights would disappear. It would mean that a fifty-one per cent majority—or a logrolling alliance of several on-the-take minorities—has the power to force a single pattern of behavior on everyone. That way lies tyranny. Rights under such a theory become permissions, with dictocrats (a favorite Read word) telling the individual what he must do.

Leonard Read, a different sort of conservative (assuming that he is a conservative at all), does not link rights and duties. He prefers to talk about "the twin virtues of 'responsible and responsive'." People should be responsible for themselves. If they are, they will be responsive to others. Quoting Verna Hall, he says that, "to the extent that an individual turns the responsibility for self over to another or allows government to take it away, to that extent is the very essence of one's being removed." Leonard Read also quotes Josiah Stamp, the English financier who was killed by a Nazi bomb. "It is easy," said Stamp, "to dodge responsibilities, but we cannot dodge the consequences of dodging our responsibilities."

Countries are saved, not by compulsory enforcement of a code of duty, but by those who are the self-responsible. We have all seen what happened when drafted soldiers were compelled to fight wars they couldn't believe in. One has a duty to defend one's country, but if one can't be "responsive" about it voluntarily as a matter of belief that the State has set a wise course in foreign policy the war will inevitably be lost.

Leonard Read's subtle distinctions about responsibility and responsiveness are important now that the idea of compulsory registration, including the registration of women, is once again in the air. The justification that is offered for compulsory registration is that it is good for the State to know where you are so that it can come and get you if it so chooses. Naturally, this assertion that one's body belongs to the State fails to create a feeling of responsiveness in the young. It results automatically in a "hell no, we won't go" reflex. A responsible government would be less fanatic about compulsion and more concerned with proving the case for a foreign

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policy that would command free assent and so attract volunteers to the colors.

Speaking of duties, Leonard Read takes off from Goethe on the subject of finding one's duty. Goethe said that man is not born to solve the problems of the universe, but to find out what he has to do—"and to restrain himself within the limits of his comprehension." There should be no compulsion on people to work for the "common good," for there are far more conceptions of what constitutes the common good than there are people. Individual assessments of the common good vary from moment to moment with "billions of changing perspectives." Going from one philosopher to another, Read quotes William Graham Sumner: "Making the most of one's self . . . is not a separate thing from filling one's place in society, but the two are one, and the latter is accomplished when the former is done."

Most people who start with an idea and build an institution to support it eventually succumb to the

to launch a fund drive to establish an endowment to cover, through earnings or interest, the Foundation's operating expenses. Such a fund, he argued, might rob the staff of the incentive to do a good daily job of persuasion.

The Foundation, as Leonard Read notes, survived its period of financial troubles. Manna continues to come from heaven as long as the "exemplarity" of the FEE staff sustains its power of attraction. As to the question of the far future of the institution, Leonard Read quotes Ralph Waldo Emerson, who said "we do not guess today the mood, the pleasure, the power of tomorrow, when we are building up our being."

Taking Emerson at his word on "unguessability," Leonard Read concludes his book by saying that "there is only one appropriate aim for those of us on the Senior Staff: to so conduct ourselves that we shall have superior successors." The future will be determined by present performances. "The power of tomorrow, as related to human liberty," says Read, "is determined by our

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AMERICAN MADE: MEN WHO SHAPED THE AMERICAN ECONOMY
by Harold C. Livesay
(Little, Brown & Co., Boston) 1979
310 pages ■ $11.95 cloth

Reviewed by Russell Shannon

WHAT is the reason for America's remarkable success? Some people say it's our religious heritage—the principles of Judeo-Christian morality and the Protestant work ethic. Others might argue that the cause is mainly political—the democracy which allowed first all white men and then anyone aged 18 or older to vote.

Yet still others claim that our economic system made America great—a vast market growing behind our expanding frontier, unhindered by trade barriers and other legal restrictions, promoting the efficiencies which arise from the specialization of labor and the economies of large scale production.

But what about individuals? An historian, Harold C. Livesay, argues persuasively that some of the credit for America's achievements is due to the contributions of great men. Livesay profiles nine individuals whose creative endeavors in the field of management revolutionized our system of production and converted the small craft shops of which Adam Smith spoke in 1776 to the vast industrial enterprises of today.

Livesay begins with Eli Whitney, who introduced not only the cotton gin but also the use of interchangeable parts, thereby extending the employment opportunities for unskilled labor. Whitney also realized that producers should seek out opportunities provided by changing markets, for he switched from manufacturing gins to producing firearms when that became more lucrative.

Second on Livesay's list is Cyrus McCormick, inventor of the reaper, But before it could sweep the plains, the reaper had to be sold to farmers with precious little mechanical knowledge and even less ready cash. So, setting up shop in Chicago, McCormick established a chain of dealers to provide prospective customers with service, information, and financing.

Andrew Carnegie used the new cost accounting when he integrated production of steel. He realized that a corporation's goal is not simply to produce as much output as possible, but to make for stockholders the highest possible return. As an economist would say, if a producer cannot make money on his product, then the scarce resources he employs could be used more effectively elsewhere.

Thomas Edison institutionalized the process of invention. But while cutting costs and enriching himself,

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Edison also wrought wonders for us. As Livesay writes, "before electricity most urban Americans lived dark, smelly, tattle-tale gray lives in the homes and streets lit by guttering wicks and flickering gas lamps, suffused with the reek of coal smoke, human excretion, and horse manure." By the same token, before Edison, "farm families (endured) numbing toil and embittering isolation." Edison helped bring an end to all that.

Similarly, Henry Ford made Americans more mobile. Pierre S. du Pont used market forecasting to stabilize production. Alfred G. Sloan likewise put General Motors on a sounder footing. Henry Ford II turned his father's faltering firm into a prodigious business on an international scale. And Edwin Land, in the tradition of Thomas Edison, showed that large modern organizations can enable the inventive inclinations of individuals to enhance the lives of all mankind.

Livesay does not make these men demi-gods. Their quirks and flaws are revealed—from Cyrus McCormick, who despite his openly professed Christianity opposed the abolition of slavery and allowed his hard-working brother a meager salary, to Henry Ford, who bought a Dearborn, Michigan, newspaper to broadcast his harsh and horrid anti-Semitism.

Readers of Livesay's lively book will learn that, by improving agriculture, transportation, communication, and industrial orgnization, these American innovators have allowed greater numbers of people than ever before to visit, hear, enjoy, and even photograph the magnificent achievements of the past and to anticipate a more attractive future. That is no mean feat.

It was due in no small part to our open system which allowed for greater economic and social mobility. And now that we have flung open the doors of opportunity for women, blacks, and other minorities, there are even greater chances for individuals not only to advance themselves but also to enhance society.

THE UNITED STATES IN THE 1980S
Peter Duignan and Alvin Rabushka, editors
Foreword by W. Glenn Campbell
(Hoover Institution Press: Stanford, California 94305) 1980
868 pages ■ $20.00 cloth

Reviewed by Roger R. Ream

No one can accurately forecast the events of the future. In today's complex and tension-filled world, it is even difficult to predict what next week's headlines will be. Yet we can make reasonable guesses, based upon the past, as to what problems the

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U.S. will face during the decade ahead.

The editors of this tome have selected twenty-nine domestic and foreign policy topics which are likely to be major public policy issues during the decade. Taken as a whole, this book offers vital information on many important issues. Thirty-two scholars discuss different topics, providing a wealth of knowledge.

The book opens on an optimistic note with Rose and Milton Friedman arguing that the intellectual basis of Fabian socialism and New Deal liberalism "has been eroded as experience has repeatedly contradicted expectations. Its supporters are on the defensive. They have no solutions to offer to present-day evils except more of the same." Although it remains to be determined whether the ideas of human freedom will be the tide of the future, clearly the opportunity exists for reversing the ominous trends of the 1970s.

The Hoover Institution is taking advantage of this opportunity for change by offering specific public policy proposals. Each author, writing on a specific issue, analyzes a problem, discusses many of the available options, then offers practical recommendations. Among the contributors on domestic issues are Alan Greenspan, economic policy; Martin Anderson, welfare reform; Thomas Gale Moore, energy; Alvin Rabushka and Dan Throop Smith, each on various aspects of tax policy; and John McClaughry, neighborhood revitalization.

Greenspan's essay is particularly important because he discusses an issue with long-term consequences: capital investment. He observes that unemployment and unstable economic conditions in recent years are due to inadequate private investment. Two important reasons for this inadequate investment are the inflation rate and the regulatory environment, both of which increase the risk premium. Capital expenditure is going into short-lived, low risk investments. Inflation introduces uncertainties concerning rate-of-return calculations and the regulatory process presents an unknowable assortment of rulings and delays. Greenspan argues that government programs must be curbed and acknowledges that "although the choices may be hard ones, the potential rewards are large. For if we are capable of defusing the underlying inflationary forces in our economy, thereby lowering risk premiums associated with potential new capital investment projects, the 1980s can usher in for the United States a period of sustained expansion. . . ."

The foreign affairs essays in this book cover "our dealings with foreign countries during the 1980s . . . [and the] need to understand and accept the limits of American power." Among the authors and topics in this section are: P. T. Bauer, foreign aid to

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Third World nations; Ray S. Cline, U.S. intelligence operations; Hendrik S. Houthakker, world energy sources; and Edward Teller, writing on "Technology: The Imbalance of Power." This section also includes essays on six geographic regions of the world.

The general conclusions these authors reach, although not with absolute unanimity, are that the U.S. has lost much of its ability to influence events around the world; that foreign aid doesn't cure poverty, or bring modernization and democracy to the third world; and that the Soviets have achieved military superiority and therefore "the major problem facing the United States in the 1980s is to gauge the intentions and strategies of the Soviet Union." The general recommendations include increasing our currently slim technological superiority over the Soviets; pursuing a consistent policy of containment of Soviet-Cuban imperialism; and allowing the price mechanism to operate, thereby enabling us to get out from underneath our reliance on Middle East oil. They offer specific proposals for achieving these ends.

Richard F. Staar has a particularly insightful essay concerning opportunities for the U.S. vis-à-vis the Soviet Union. It is likely that a change of leadership will take place in Moscow in the 1980s. "One of the great weaknesses of the Soviet system," Staar writes, "is that no means exist for any constitutional transfer of power or for the removal of overaged or otherwise disqualified leaders except by conspiracy." He predicts the struggle for power following Brezhnev's departure may "involve an extended period of disorientation in Moscow." However, following this period of vulnerability, the new Soviet leadership can be expected to remain narrow-minded and totally dedicated to their system of terror. Staar recommends specific actions we can take to be in position to exploit the opportunities created following Brezhnev's departure, including projecting the U.S. to the Third World "as a revolutionary system that has brought prosperity to the American working class . . . and where human rights are strongly upheld. . . ."

Compiling a volume as broad as this book can present several problems for the editors. There is the difficulty of selecting the issues which will be of greatest importance in the 1980s. While the verdict on this count cannot be handed down until 1990, it appears that all major areas are covered in this book with the possible exception of crime. The crime rate is approaching such a level in this country that peaceful political, social, and economic activity is endangered. The problems discussed in this volume contribute both directly and indirectly to the

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increasing crime rate and stem from the same source, a growing disrespect for life and property.

The selection of scholars to contribute to the volume is also excellent. The topics are thoroughly covered and the proposed alternatives are accompanied with well-reasoned arguments.

It is unlikely any reader will find himself in complete agreement with a book of this breadth and diversity. Each author has his own somewhat distinctive philosophical outlook. The intention of the book is to offer public policy proposals. Solutions consistent with free market principles are sometimes dismissed because they are not politically viable. Several of the authors reluctantly "begin with the premise that any serious plan for . . . reform must be politically, economically, and socially feasible. . . ." The difficulty here is that we sometimes find ourselves trying to make socialism work, rather than proposing bold initiatives which are consistent with the principles of freedom. By concerning ourselves with the politics of an issue, we sometimes offer solutions that are not wholly consistent with our principles.

The Hoover Institution has done a great service by publishing a book which forcefully analyzes problems confronting the U.S. and offers useful and creative solutions. The 1980s will present numerous opportunities to restore greater freedom and security to Americans. This book brings into focus many of the opportunities and challenges we are likely to face.

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